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# BusinessWeek

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# TOBACCO

## Does It Have A Future?

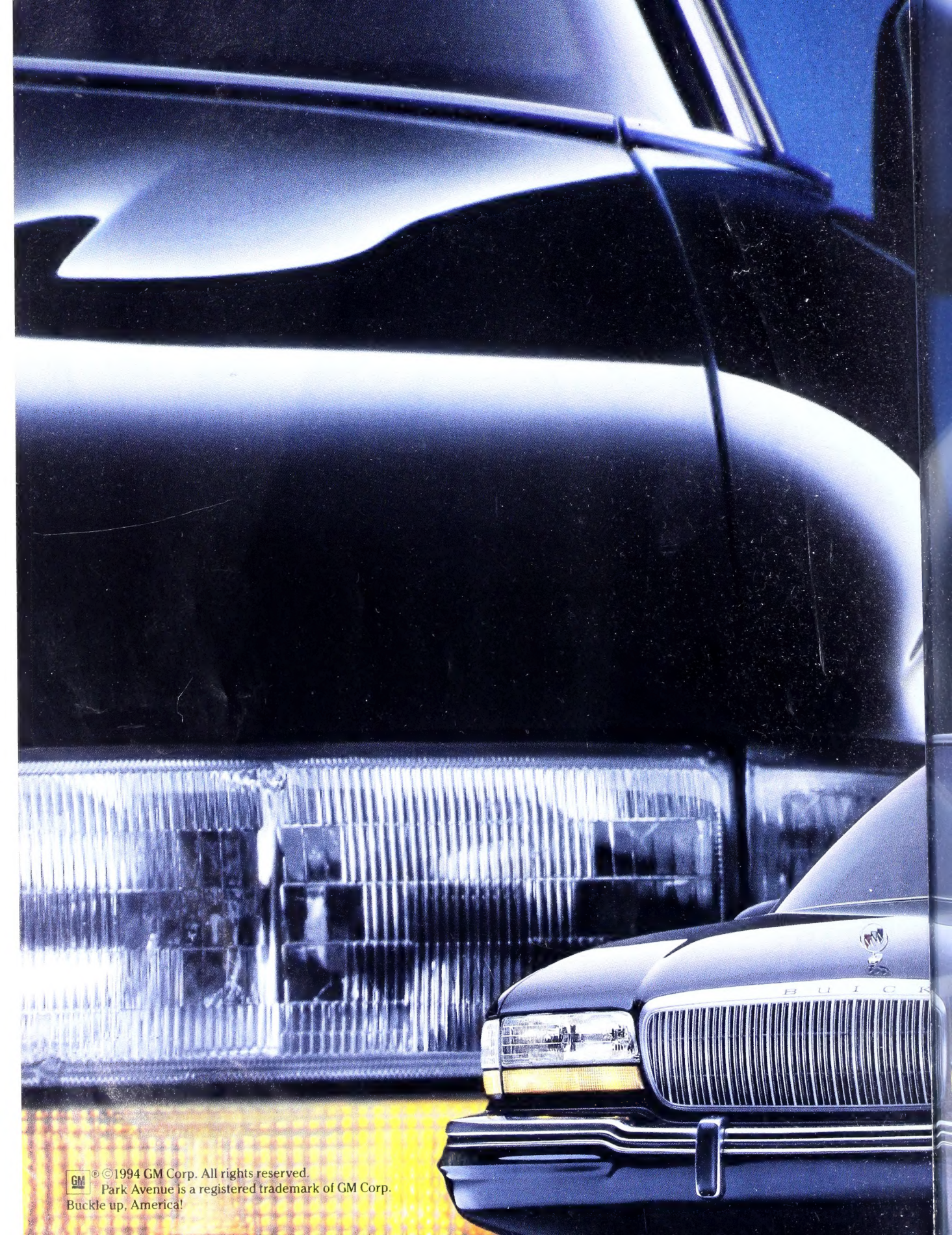
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**FIRED UP: PHILIP MORRIS CEO BIBLE AND CHAIRMAN MURRAY ARE MOBILIZING HUGE RESOURCES TO BATTLE ANTISMOKING OPPONENTS**

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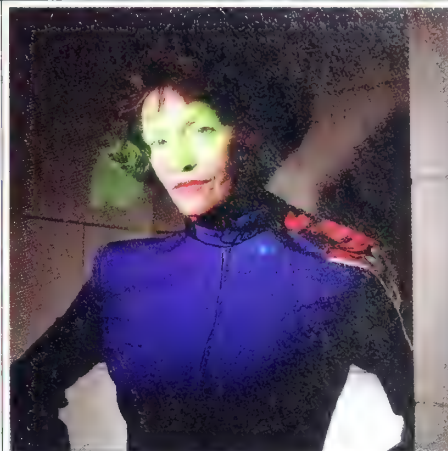




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# Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

## FUTURES FUSS

### THE MORE HILLARY TRIES TO EXPLAIN...

**W**hen the White House released new documents detailing Hillary Rodham Clinton's commodities trading in the late '70s, it hoped the disclosure would



**CLINTON:** *Inquiring minds still want to know*

end the media's hunt for improprieties. Sorry. The material—trading records from the Chicago Mercantile Exchange—raises as many new questions as it answers about the First Lady's foray into futures:

► Her first trade was to sell short 10 cattle contracts, a bet on falling prices. That seems to contradict Mrs. Clinton's claim at her Apr. 22 press conference that she got into cattle futures because friend James Blair predicted a bull market. The Clintons' personal attorney, David Kendall, says there's no contradiction: "She never said she was just going to trade long positions." But a top Merc official says it's unheard of for a novice to go short on a first trade.

► It was widely reported that Mrs. Clinton's initial stake of \$1,000 was less than 10% of normal margin requirements. But overlooked was the fact that half of that should have gone for commissions. That meant her stake could have been wiped out by a mere

blip in the volatile cattle market. Lucky for her, the investment swelled to \$6,300 the next day. Kendall says Mrs. Clinton "fully understood" the risks and would have made good on losses had the market moved against her.

► The Merc has not released all the records it has on Mrs. Clinton's trades. Thomas Tyler Jr., a former Commodity Futures Trading Commission attorney who reviewed the latest disclosures for **BUSINESS WEEK**, notes that key information is missing. Tyler believes the Merc could match up customers on the other end of Mrs. Clinton's trades, possibly proving Merc insiders' claims that she got preferential treatment from her broker, Robert "Red" Bone. A Merc attorney says the exchange—which prepared its own report before the White House asked for the records—didn't match up trades since that would have been time-consuming and costly. *Dean Foust*

ton's trades, possibly proving Merc insiders' claims that she got preferential treatment from her broker, Robert "Red" Bone. A Merc attorney says the exchange—which prepared its own report before the White House asked for the records—didn't match up trades since that would have been time-consuming and costly. *Dean Foust*

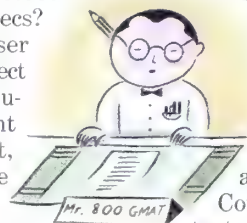
## TALK SHOW

*It's Welch's unequivocal statement that we are all over this like a cheap suit.* —NatWest analyst Nicholas Heymann on General Electric CEO Jack Welch, after Michael Carpenter's exit as head of GE's troubled Kidder Peabody unit

## B-SCHOOL NOTES

### GOOD WITH NUMBERS, BAD WITH PEOPLE

**D**o students with high GMAT scores make the best execs? Nope. The closer they get to a perfect 800 on the Graduate Management Admission Test, the worse they're equipped for the real world. So says a study at the University of Southern California's B-school



of 1,200 students, who took personality tests gauging management prowess. Those who did the worst had the best GMAT math scores. USC researcher Michael Driscoll says they're "nerds" lacking needed social skills. Those with higher GMAT verbal scores did better, he says. The Graduate Management Admission Council says its GMAT test shows only how first-year students will do academically. *Jeffrey Glas*

## LABOR PAINS

### THE STEELWORKERS GET STUNG



**AK'S GRAHAM:** *Steely resolve*

**T**he United Steelworkers just got bit by a barracuda. AK Steel Chairman Thomas A. Graham, known as the "Smiling Barracuda" for his

cost-cutting, has won a major victory over the USW. Workers at the nation's No. 6 steelmaker voted 54% to 46% to support management by sticking with AK's accommodating independent union.

Graham, 67, loathes the pacts guaranteeing jobs that most of Big Steel last year signed with the USW. AK (formerly Armco Steel) ran as a warning workers of high dues and strikes if the USW won. It was, says the USW's Randy McKay, "the biggest union-busting dog and pony show I've ever seen." AK workers, facing a critical fight with new minimills, also supported Graham because, in his two years at AK, black ink has returned. *Keith L. Alexander*

## REALITY CHECK

**BOB KERREY SAYS** his commission on entitlement reform isn't "a political gesture" that will go nowhere. The new Bipartisan Commission on Entitlement & Tax Reform, which Senator Kerrey (D-Neb.) chairs, aims to make recommendations to cut spend-

ing on entitlement programs, such as welfare, Social Security, and Medicare—whose costs climb ever upward. The panel's vice-chairman, Senator John Danforth (R-Mo.), insists "our objective is not just another report."



**KERREY:** *Tough odds*

**IN REALITY**, the commission is a very political body facing long odds against cutting entitlements. Political because it is a payoff by the Clinton Administration to Kerrey for supplying the crucial vote on the 1993 budget bill that gave the White House a key victory. And of the 32 members, all but five are current or former

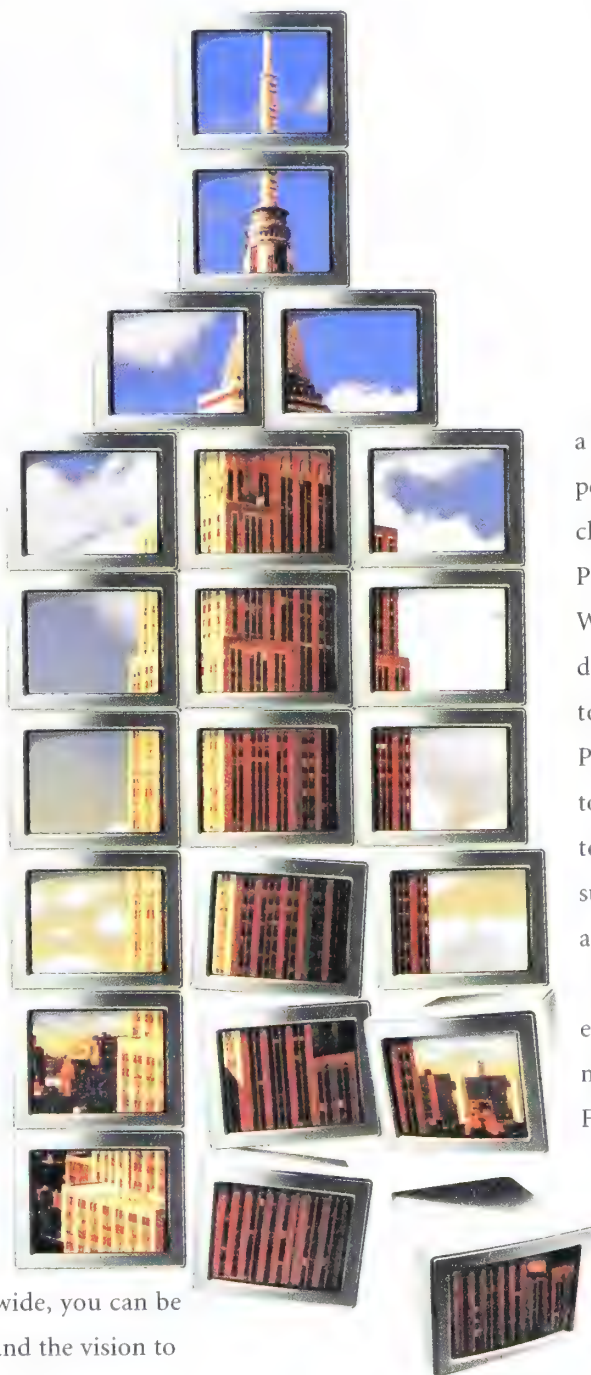
officeholders. As for delivering a report with real impact, Danforth admits pols fear "the third rail of politics"—curtailing benefits, which most experts deem the solution. In 1989 a similar panel deadlocked after a year of struggle. Only result: the commission's \$1 million bill to taxpayers. *Paul Magnusson*



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## ROBOTIC, YES —BUT DAPPER



**JUST DON IT:** Sampras in baggies

When Pete Sampras took the court at Wimbledon to defend his title on June 20, he wore voluminous shorts bearing the Nike "swoosh"—part of his new megabuck endorsement deal. But the superstar almost didn't get

the \$18 million, five-year deal. According to a just-issued book on Nike, Donald Katz's *Just Do It*, senior execs last year decided to pass on Sampras: They figured his "bland" and "robotic" style weren't big selling points with the public. Nike already had aboard the equally colorless Jim Courier—mainly to offset its other big tennis name, Andre Agassi, whose flamboyance disturbed older consumers. So Nike talent scouts saw Sampras as a needless expense.

But Nike founder and CEO Philip Knight overruled his executives, the Katz book says, based on his gut feeling that the three strongest male U.S. players would create excitement. Adding spice: Knight is quoted as saying the trio will "be the three amigos who hate each other."

That may be hyping run-of-the-mill rivalry in a sport whose appeal has waned in recent years. The threesome's managers say they get along, and that Sampras and Courier are golfing buddies. Sampras' rep and Nike won't talk about how their deal got done. □

## IPO TURKEY OF THE MONTH

### CLEANS OUT WALLETS—RIGHT DOWN TO THE SHINE

Investors in Harvey Universal, a cleaning-products company in Torrance, Calif., have seen their stake virtually cleaned out. Last fall, Harvey came to market at \$7.75 per share. It has fallen to less than one-fifth of that.

Harvey had a hot story to sell to the market for initial public offerings, then going strong. It billed its products as environmentally safe and boasted a Japanese distribution setup. "We felt the company had some sizzle," says Dennis Wittman, vice-president for finance. Harvey raised \$10 million, using \$3 million of that to pay off bank debt and much of the rest to bolster sales channels.

Unfortunately, those sales channels needed more than bolstering. It turns out the Japan deal is still up in the air. And Harvey admits many sales reps weren't up to speed—not following leads aggressively, for instance.

In this year's first quarter, Harvey announced a 39¢-per-share loss, vs. a 25¢ loss in the same period of 1993.

CEO Larry Harvey, who founded the company in 1982 and expanded into cleaning products in 1992, says the problems are being solved and sales are starting to grow. The company, he says, is now pushing investor relations, "doing the missionary work we should have done last year." □



## DRAWN AND QUARTERED



## ON THE FUND FRONT

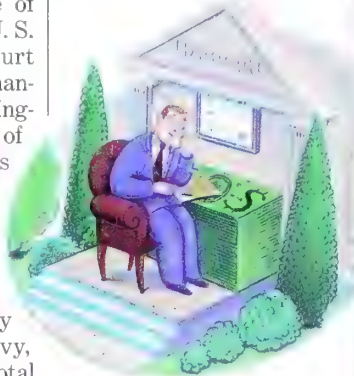
### THE HAULS OF IVY

Ivy League colleges have produced a large share of the best and brightest: U.S. Presidents, Supreme Court justices, CEOs—and fund managers. What's more, Morningstar, which collects reams of data on mutual funds, says funds managed by Ivy League alumni post better returns than the rest.

For the five-year period ended May 31, diversified U.S. equity funds run by Ivy alums beat the non-Ivy, with an average annual total return of 11.2% to 10.8% (appreciation plus reinvestment of dividends and capital gains). Ivy managers of taxable bond funds trounced non-Ivies 8.8% to 8.1% for the same period.

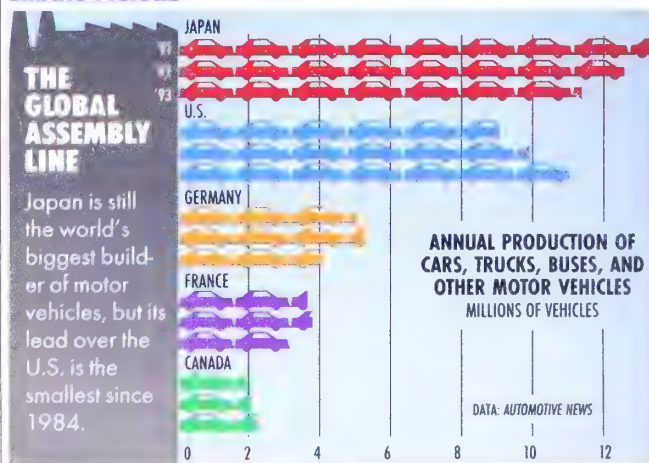
Ivies tied non-Ivies in mutual bond funds, but lost on international equity funds.

Morningstar says how fund matches your goals and risk tolerance is more important



than a manager's sheen. But hey, when you're choosing among similar mutual funds, the manager's academic pedigree could be the tiebreaker. *Jeffrey M. Laderman*

## THE BIG PICTURE



## FOOTNOTES

Movie ticket price, average increase since 1990: **4%**. Consumer price index increase, same period: **15%**



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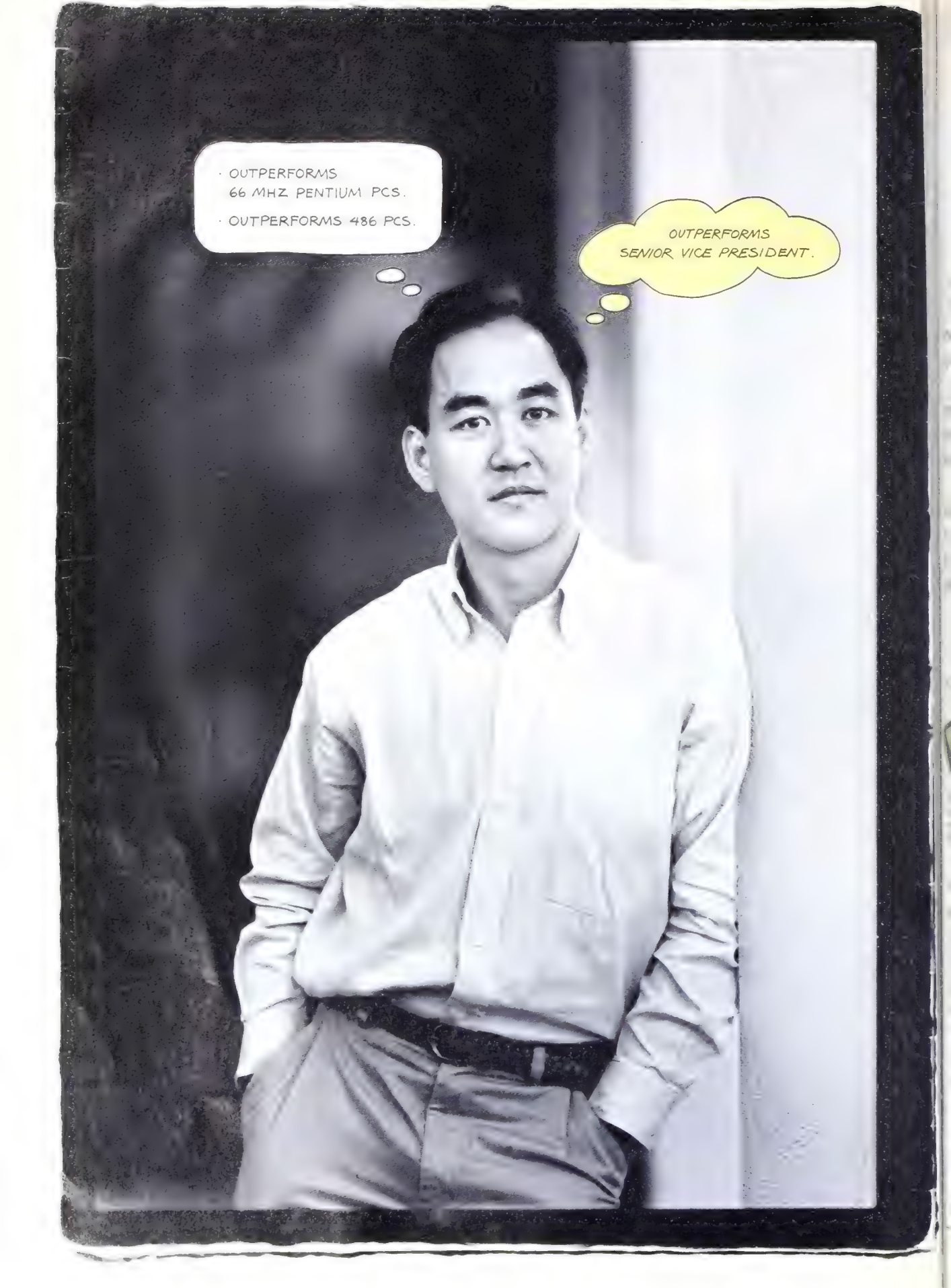
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## ASSESSING CHINA: HITS AND MISSES

**C**ongratulations on the excellent article "China: Is prosperity creating a freer society?" (Cover Story, June 6). President Clinton's renewal of China's most-favored-nation status is also to be applauded. Such a decision will certainly strengthen the growing tie between American businesses and China's booming middle class, who in turn will create pressure for more freedom, which could possibly lead to a change in the regime in China.

Mike W. Peng  
Coordinator & Instructor,  
Chinese Track  
Center for International Business  
Education & Research  
University of Washington  
Seattle

**A**s has become all too common in its coverage of China, BUSINESS WEEK has once again missed the point. The views that ought to control the debate over how best to induce the Chinese to respect fundamental human rights are those of the people whose rights are being violated. Yet nowhere in BUSINESS WEEK's pages is found the voice of any representative of those who have been victimized by the government's repressive and even genocidal conduct.

China continues to torture and murder those it has imprisoned for the "crime" of objecting to its policies; toys and other products the Chinese export to the U.S. are largely manufactured by the slave labor of those imprisoned for such "crimes," and China's occupation of Tibet is an international crime of the highest order.

Andrew G. Dulaney  
San Francisco

**Y**our article correctly notes that China has been making astonishing changes in recent years and therefore should now be more inviting to U.S. business than at any time in the past. But you missed what my experience tells me is the most important ingredient of China's economic growth: the rural-en-

## CORRECTIONS & CLARIFICATIONS

"Managed care, niche by niche" (Finance, June 13) should not have said that Lewin-VHI had been hired by the Congressional Budget Office to review President Clinton's health-care plan. The review was done independently.

"Denny's does some of the right things" (In Business This Week, June 6) erred in saying that none of its franchised restaurants are owned by minorities and that no new applicants are black. Of 472 Denny's franchisee restaurants, 56 are owned by groups with minority partners. And 28 minority franchisee applicants are black.

An illustration with "Electric car" (Cover Story, May 30) should have identified A.O. Smith Corp., not General Electric Co., as the builder of the electric motor used in Ford's Ecostar.

terprise system, which consists of the sands of manufacturers of every kind of product. Few are located in metropolitan areas. These small- to midsize plants operate throughout China, with the coastal provinces having the greatest numbers. The style runs from straight capitalism to a collectivist communal ownership. And regardless of organizational form, they are universally entrepreneurial. They are not part of the central plan nor under the control of the central government. In all of China, the rural-enterprise system represents about 30% of the nation's economy, or so it was told last summer on my sixth trip to China.

Where did this astonishing vitality come from? In the late 1970s, Deng Xiaoping determined that China must stop using up precious foreign exchange obtaining necessary food from abroad. "You must meet your crop quota," farmers were told, "but beyond that quota whatever you grow you may sell on the open market for your own account." That did it.

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small manufacturing enterprises followed. These rural-enterprise companies could be better understood in America. Trade among them and small- to midsize U.S. companies should become an important commercial relationship.

Robert D. Orr  
Chairman  
Alliance for Global Commerce  
Indianapolis

*Editor's note: The writer is the former U.S. Ambassador to Singapore.*

## NOT-GUILTY VERDICT FOR INFORMATION RESOURCES

Our article "Bad-news bearers who lucked out twice" (Up Front, June 1993), which discussed the two class actions that have been filed against Information Resources Inc., could have been written about many other high-tech companies whose volatile stock prices lead to financial ambulance chasing by a small series of plaintiffs' lawyers.

However, if BUSINESS WEEK had waited just one week longer it would have been able to write about how one company refused to knuckle under, withstood five years of legal headaches, presented its case to a jury—and won a unanimous verdict. That company: Information Resources.

This verdict was not only a victory for IRI but also for other public companies who are frequently the subject of these often-baseless, so-called fraud-on-the-market lawsuits. We hope our victory will encourage others to fight these actions until some legislative or other solution can be found.

Robert J. Bregenzner  
Senior Vice-President  
Information Resources Inc.  
Chicago

*Editor's note: The jury ruled in favor of IRI in a shareholder suit accusing executives of trading on insider information in 1989. A second suit involving trading in 1993 is pending.*

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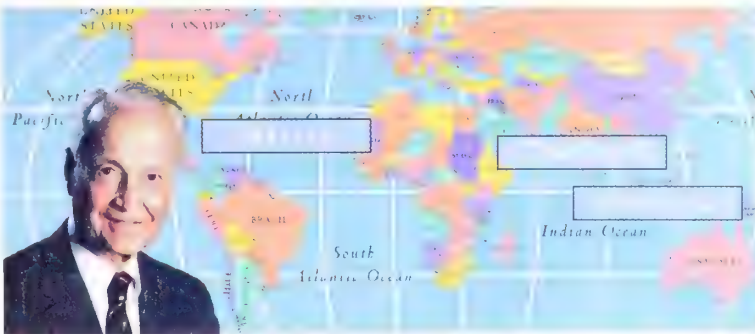
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## THE HUBBLE WARS: ASTROPHYSICS MEETS ASTROPOLITICS IN THE TWO-BILLION-DOLLAR STRUGGLE OVER THE HUBBLE SPACE TELESCOPE

By Eric J. Chaisson

HarperCollins • 386pp • \$27.50

# THE TROUBLE WITH HUBBLE

**T**he Hubble Space Telescope was supposed to boldly extend humanity's vision where no eyes had seen before. It was to let astronomers chart distant galaxies, discover planets around other stars, and discern the fate of the universe. But so far, the lessons from the orbiting observatory have been more earthbound than heavenly. As astrophysicist Eric J. Chaisson reveals in this eye-opening, caustic memoir of his tenure as a senior scientist at the Space Telescope Science Institute, the pursuit of knowledge was imperiled by ineptitude and bickering.

What's more, Chaisson argues, the true story of Hubble differs from the accepted saga of initial success, subsequent failure, and ultimate redemption. Yes, NASA did announce a flawed mirror on the \$2 billion observatory two months after its much-hyped launch in April, 1990, and spacewalking astronauts did fit corrective lenses during a December, 1993, space-shuttle mission. But the relentless focus on the mirror was itself myopic, says Chaisson. The space telescope "is now no more 'fixed' than it was originally 'broken.'"

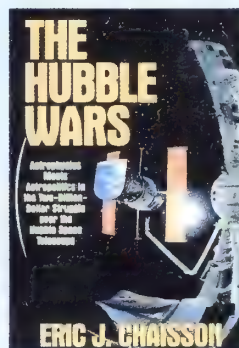
Chaisson offers a close-up view of a spacecraft so complex and poorly engineered that, from the start, just keeping it going was a major challenge. Opening and closing the main aperture door, for example, threw the craft into a paroxysm of shivers. Several of the gyroscopes failed. The star-finding systems balked. And the power-generating solar arrays flapped "like the flexible wings of a spaceborne pterodactyl," throwing off the telescope's aim for precious minutes of each orbit.

Even so, and despite the flawed mirror, Hubble could do good science, Chaisson reports. Scientists found a way to restore most of the planned image sharpness, or resolution, with computer corrections. But the procedure limited the telescope's ability to see dim ob-

jects, such as planets around other stars. "Hubble's loss, we all now agreed, was to sensitivity, not to resolution, an important point that the media refused to get straight for months," Chaisson explains. That's one of several reasons the 1993 fixes weren't nearly as dramatic as NASA claimed. Indeed, Chaisson asserts, the agency avoided comparing pictures from the repaired telescope with the old computer-enhanced ones for fear the public would see through the hoopla.

Chaisson, now at Tufts University,

**O**ne eye-opener:  
*Spy-satellite makers  
had solved many  
of Hubble's snags  
but refused to help*



slips pithy astronomy lessons in amid the drama of Hubble's travails. But the book's juiciest parts reveal backbiting and internal battles. NASA founded the Space Telescope Science Institute—a consortium of 21 universities that oversees Hubble's scientific agenda—in 1981, under pressure from space scientists. And ever after, it resented the loss of control. Chaisson says NASA's bureaucrats especially disliked him because, as director of educational programs, he dared to challenge NASA's "pure, unadulterated hype."

Consider Chaisson's effort to correct one of NASA's most egregious errors—the claim that Hubble can see seven times farther than any other telescope. "This is patently false, if only because our ground-based telescopes already perceive objects...close to the limits of the...universe," he explains. NASA's response, he says, was to slap a gag order on the

institute and try to get him fired. And not even strong backing from the institute director got the message through. After NBC's top science correspondent reported that Hubble will let mankind see 10 times farther than ever before, NASA public affairs official gloated, "Looks like my boss got the best of your boss," she said to Chaisson.

Some astronomers were hardly more mature. One of Chaisson's chief duties was scheduling some of the observations the telescope would make. His plan, which NASA first resisted but embraced after the mirror fiasco left it desperate for good press—was to release stunning pictures of galaxies and other stellar objects. But many researchers wanted to study the images in secret so others couldn't beat them to discoveries. At one meeting, Chaisson says, an astronomer screamed that a couple of his favorite cosmic objects were on Chaisson's list, and shouted: "If you look at those

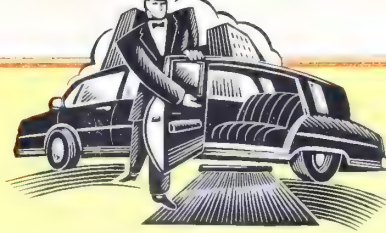
objects before I do, I'll kill you." But Chaisson had some experience dealing with tantrums. "Having a child in kindergarten helped," he writes.

These tales are, of course, self-serving and one-sided. And even Chaisson is prey to the small-mindedness that troubled space telescopes seemed to arouse. When Iraq invaded Kuwait, he writes: "My greatest concern was that fighting would break out in Arabia and the media wouldn't even notice the encouraging results we were now obtaining with Hubble."

Still, Chaisson brings us a heretofore untold story, as well as a wealth of fascinating details. Where else could you learn that acid fallout from each space shuttle launch kills thousands of fish in lagoons around Cape Canaveral? Or that the nation's spy-satellite makers had solved many of the problems that plagued Hubble, but refused to pass on the findings? Or that many scientists wanted the repair mission to fail? (Astronauts working successfully in space would boost prospects for the space station, which they saw as incredibly costly and scientifically barren aerospace industry pork.) Add it all up, and Chaisson's tale is a sobering reminder that even the grandeur of the final frontier is no match for the hubris—and pettiness—of humanity.

BY JOHN CAREY

Science writer Carey covers NASA



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ED BY STEPHEN H. WILDSTROM

## DIGITAL SIGNATURES THAT CAN'T BE FORGED

You check your E-mail to start the day, and the message from the CEO of executive is a shocker: your company is being restructured, and large-scale layoffs are planned. But the CEO never saw this message. It was a prankster's bad idea of a joke. So far, corporations have rarely been spared this sort of assault, known as "spoofing." But students at colleges have caused widespread confusion by sending phony E-mail notes announcing the rescheduling of administrators and canceling exams. Computer security experts say that as the business usage of E-mail grows and as more messages travel across the Internet and over public links, mail forgery is sure to grow. The good news is that a so-

encrypt and decode messages. Let's say Alice wants to send Bob a message. Once she has written her note, the computer reduces the text to a string of 128 seemingly random characters and tacks this "digest" onto the end of the message. The system then encrypts the digest using Alice's secret private key.

When Bob receives the mail, his computer uses the same technique to turn the text into a digest. It then looks up Alice's public key, and plugs it into a formula that can restore Alice's digest to its original appearance. Unless the digests match, either Alice didn't sign the message or the text was tampered with in transit.

This method can do far more than make sure that E-

quirement for widespread use is that the whole process be automatic and unseen, generating a warning only if the signature program detects a problem. The corporate-communications program in Lotus Notes functions that way, but few other popular software products do.

Signed communications between companies also require that they have a simple and secure way to look up each other's public keys. Northern Telecom Ltd. and National Semiconductor Corp. have started services to manage key information, and easy ways to sign messages will be incorporated into future versions of Microsoft Mail and Lotus cc:Mail, although neither company will give a date. The use of digital signatures will be limited until this infrastructure is built.

**STANDOFF.** That construction job may be slowed, however, by a war over standards. Most business applications of digital signatures have been built around the patented technology of RSA Data Security Inc. The federal government is requiring agencies—and some contractors—to use an approach developed by the National Institute of Standards & Technology called the Digital Signature Standard (DSS). Not only are the two incompatible but RSADSI claims that DSS infringes on its patents. NIST denies the claim, but RSADSI President James Bidzos says he is prepared to sue any company that uses DSS. The result is a standoff in which "everyone will sit and wait," says Stephen T. Walker, president of Trusted Information Systems, a Glenwood (Md.) computer-security company.

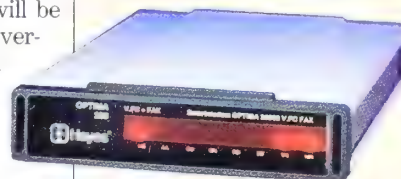
Business needs authentication of E-mail—digital signatures—for electronic commerce to really take off. But until this legal mess is cleaned up, development of the technology will remain hobbled. S.W.

## BULLETIN BOARD

### MODEMS

#### SUPERFAST—BUT PICKY

A new breed of modem is promising personal-computer users the ability to send data over phone lines at up to 28,800 bits, or roughly 500 words, per second. That's twice as fast as the speediest units now generally used. But unless you have specialized needs, you might want to hold off buying. Tests in the labs of NSTL/McGraw-Hill revealed that the top-rated Hayes Opti-



ma 28800 V.FC (\$579) and similar modems live up to their promise only when communicating with another modem of the same type. Even if different 28,800-bit brands are Hayes-compatible, they often have to drop down to a slower speed to talk to each other. A recently approved international standard will solve the problem, but it won't be incorporated into all of the superfast new modems for a while.

### READER'S QUERY

#### A SLOWPOKE? NOT THE PDA

In response to the June 13 column on personal digital assistants, Ronald Millaron of Reston, Va., asks how fast the Motorola Envoy transmits data. The Envoy communicates at a relatively slow 2,400 bits per second. The reason, says Motorola, is that it couldn't cram a faster modem into Envoy's packed innards. But because most messages sent and received by PDAs are brief, the few seconds it takes to establish communications, either by phone or by radio, is generally longer than the actual transmission time.



is at hand, one that would not only make E-mail secure but could clear the way for a broad expansion of electronic commerce. The technique is called a digital signature, and it lets you be sure just who sent a message.

The trick is a bit of mathematical legerdemain that uses pairs of numbers, called the private and public keys, to

mail is authentic. Digital signatures could replace handwritten ones on a wide array of business and legal documents, from purchase orders to court filings to tax returns. The results could be an explosion in electronic transactions, with the potential for greater efficiency and lower costs.

So why aren't more businesses doing it? The first re-

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# WHY ARE WE SO INSECURE ABOUT SOCIAL SECURITY?

BY ROBERT KUTTNER



Critics say it will bankrupt America—but the system is solvent and could continue to be with minor adjustments. And if it favors the elderly over the working poor, the solution is universal health coverage

**T**he new 32-member bipartisan Commission on Entitlement & Tax Reform is on a crusade to demonize entitlements, particularly Social Security. The commission was authorized in the 1993 budget accord as part of a bargain to win the vote of Senator Bob Kerrey (D-Neb.), who was named commission co-chair. At its first public meeting on June 13, Kerrey declared: "Entitlements are a barrier to savings and economic growth.... They will bankrupt America if we do not bring our commitments in line with our capacity."

According to anti-entitlement groups, Social Security is on the verge of insolvency; it incurs debt, depresses growth, and subsidizes the affluent old at the expense of the working young. Thus, Social Security should be slashed for the sake of fiscal balance, economic growth, and generational fairness. The Concord Coalition, an anti-entitlement lobby, proposes to means-test Social Security by limiting it to people of moderate income.

Is Social Security really a fiscal monster? A reading of the statistics in the 1994 Social Security Administration annual report suggests the need for reform but not alarm. For starters, Social Security is not a source of the deficit. On the contrary, Social Security will run a \$43 billion surplus in 1994, and its surplus will increase for another decade. The system's annual income will continue to exceed its annual payouts until the year 2019, when baby boomers flood the ranks of retirees. Even so, Social Security will have more than enough revenue and reserves to cover its projected obligations fully until 2029—35 years into the future.

However, if we extrapolate lengthening life spans into the mid-21st century and fail to make adjustments, Social Security would then begin experiencing deficits (though manageable ones). According to the annual report's 75-year projection, if we make no changes for a generation, payroll taxes will have to rise by about four percentage points beginning in 2019 to keep Social Security checks growing with the cost of living throughout the next century. Alternatively, if we raised payroll taxes by about two percentage points now, Social Security would be solvent indefinitely.

**NEW AGE.** Of course, there are better ways to guarantee Social Security for our grandchildren than raising payroll taxes, which already are too high. One way is to keep adjusting the retirement age to reflect longer life spans. When Social Security paid its first check in 1940, the average new retiree could expect to live another 12 years. Today, that span is almost 18 years. A House Ways & Means Committee plan would restore long-term balance to

Social Security by trimming benefits an average of 8.7% beginning in 2003, raising the retirement age to 67 in 2016, and having one-time cut in the annual cost-of-living adjustment. Economist Henry J. Aaron of the Brookings Institution adds the suggestion that Social Security income should be taxed the same way other pension income is taxed.

The relative modesty of these adjustments should put alarmism to rest. As Robert McIntyre, director of Citizens for Tax Justice, observes, Social Security currently pays out about 4.6% of gross domestic product, down from 5.1% in 1983. Even if we do nothing at all, 30 years from now it will pay out all of 6% of GDP—hardly cause for hysteria. Neither can we fairly blame Social Security for depressing U.S. savings rates. Every member nation of the European Union has higher rates of savings than we do—and every one has more generous citizen-pension systems.

**IDEOLOGICAL ASSAULT.** Nor are most old folks living it up on Social Security checks. A majority of the elderly depend on Social Security for more than half their income. Only 22% of retired people even reach the \$25,000 total income threshold (\$32,000 for couples) when they begin paying taxes on half of their Social Security income. Means-testing Social Security would be the surest way to wreck it, for it would turn Social Security into another welfare program instead of an earned pension plan for everyone.

It's true that the U.S. system of social insurance favors the aged. Elderly people get Social Security checks and Medicare coverage. But contrary to the views of the Entitlement Commission and the Concord Coalition, the solution to that inequity is not to modify Social Security. It is, rather, to extend universal health coverage to all age groups.

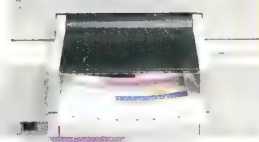
Indeed, the biggest budget buster today is not Social Security but health care. Medicare outlays consume nearly 15% of GDP now, or more than three times Social Security, and will claim an additional percentage point of GDP nearly every two years—absent reform. Universal health coverage could stop medical cost inflation by compelling the health system to live within an overall budget.

Social Security does need some adjustments we owe that to future generations. But the broader attack on social insurance is really an ideological assault, masquerading as fiscal prudence and generational compassion. Paradoxically enough for the entitlement basher, the cure for both the generational imbalance and the fiscal worry is another entitlement—universal health insurance.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ-FAIRE

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BY GENE KORETZ

## AMERICAN INDUSTRY LOOKS LIKE IT'S BOOSTING CAPACITY

**D**on't look now, but there are growing signs that the U.S. manufacturing sector may finally be starting to raise its capacity at a more rapid pace.

Over the past eight quarters, capital investment has accounted for some 36% of the economy's growth, and capital-spending plans for 1994 remain strong. But whereas in the past most of this spending has gone for equipment, economist Michael Moran of Daiwa Securities America Inc. notes that outlays for structures have picked up in recent quarters (except for the weather-constrained first quarter), suggesting that "the expansion of capacity has

projects runs well into the hundreds.

Many U.S. manufacturers that are starting to expand capacity seem to have more than the robust domestic economy in mind. With the dollar no longer overvalued as it was a decade ago, and with U.S. competitiveness honed by restructuring and strong investment, they appear to be setting their sights on a resurgent world economy.

## WHY PINK SLIPS DON'T NECESSARILY ADD UP TO PRODUCTIVITY HIKES

**A**lthough the U.S. expansion is three years old and going strong, many businesses are still paring their employment rolls. Challenger Gray & Christmas Inc., an executive recruitment firm, reports that its tally of planned layoffs by big U.S. companies is up 18% so far this year. Meanwhile, the downsizing trend has spread to Europe and Japan.

The rationale for such job-pruning, of course, is that it pays off in productivity gains. And the often-cited proof is the performance of the U.S. manufacturing sector, which boosted its output per worker by a healthy 33% from 1977 to 1987, while cutting employees by 4.5%. Because U.S. industry bit the bullet on job cutbacks, so the story goes, it is now lean and mean and better able to compete in global markets.

Inspiring as this saga is, a National Bureau of Economic Research analysis of over 250,000 manufacturing plants by Martin Neil Baily, Eric J. Bartelsman, and John Haltiwanger suggests that it is oversimplified. Downsizing has been less pervasive than commonly believed, the study finds, and its productivity-enhancing role has been exaggerated.

It's true, for example, that the number of workers in the average manufacturing plant fell from 58 in 1977 to less than 50 in 1987. But this average is deceiving. Much of the factory workforce in 1987 worked in very large plants, which grew significantly in the 1980s. In fact, the typical worker in that year was employed in a plant with over 1,700 workers—about 10% more than in 1977.

What's more, the net employment decline over the decade appears to have occurred mainly because jobs lost via plant closures were not fully offset by jobs created at new facilities. The job loss among the 140,000 plants that operated from 1977 to 1987 was marginal.

In this latter group, of course, a large number did downsize and post healthy productivity gains. But even more plants (including many of the largest facilities)

managed to raise output per worker while expanding employment, and they contributed about as much to overall productivity increases during the 1980s as the successful downsizers.

A large number of establishments also experienced productivity declines, including some that downsized and some that expanded their payrolls. In other words, downsizing and productivity gains were far from synonymous during the 1980s. As in prior decades, many companies found they were able to boost jobs and productivity at the same time.

## WHAT GLOBAL BOND MARKETS ARE REALLY SAYING

**T**o many observers, the rise in world bond-market yields reflects excessive inflationary fears. But economist Michael R. Rosenberg of Merrill Lynch & Co. argues that global bond markets, which have become increasingly integrated, are reacting to a new set of risks stemming from stronger world economic growth than anticipated only a few months ago.

Both the surge in commodity prices and the growing signs of recovery in Europe and Japan support this thesis. And so does a relatively precise measure of real interest rates: movements in Canadian and British inflation-indexed government bonds. Real returns provided by such bonds, notes Rosenberg, have moved higher this year, suggesting that almost half of the 250 basis-point rise in global bond yields this year reflected an upward adjustment in real rates.

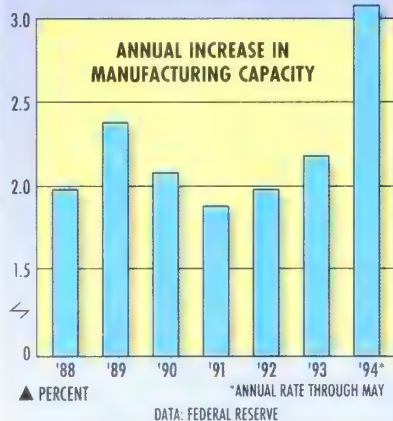
The markets, concludes Rosenberg, "are saying that an accelerating global expansion will produce both higher rates of return for business and a pickup in inflation over the year ahead."

## THIS HEALTH-CARE TREND SPELLS RELIEF FOR U.S. BUSINESS

**H**ealth-insurance costs for U.S. employers, which have been posting double-digit gains for years, have slowed dramatically. Benefits consultant Towers Perrin says average medical-plan costs for employees at major corporations are up only 5% to 6% this year.

Behind the slowdown are a sharp decline in health-care inflation and shifts toward higher deductibles and managed care plans. If it lasts, the taming of health-care costs will alleviate one business' biggest headaches.

### Factories Gear Up for Rising Demand



begun to motivate business investment."

The Federal Reserve apparently agrees. According to its estimates, factory capacity growth so far this year is the fastest since 1985 (chart).

One catalyst seems to be high operating rates. Industrial-capacity use was 83.5% last month, a threshold for expansion in past business cycles. And that's with capacity utilization in the bellwether motor-vehicle industry down by 10 percentage points since February because of model changeovers.

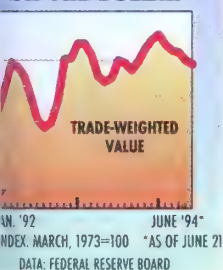
Another straw in the wind seems to be a rising number of plant expansions and green-field investments. Economists at Dean Witter Reynolds Inc. recently counted more than 60 new plants and 70 plant expansions announced by U.S. companies this year. Moreover, they are now reviewing a more inclusive tally that indicates that the actual number of such

## THE ECONOMY WILL ROLL WITH THE PUNCHES THE DOLLAR IS TAKING

It's not enough these days that inflation fears can grip U.S. financial markets. Now, those anxieties can zip around the world as global investors move millions in and out of markets with lightning speed.

That's exactly what's happening now, especially in European bond markets. Yields on everything from British gilts to German bunds are soaring, even though inflation is far less of a threat in those countries than in the U.S. The victim in all this is the U.S. dollar (page 30). That's because global investors are fearful that rising U.S. inflation could erode the rate of return on dollar-denominated securities. And except for Japan, dollar-based yields are already among the lowest in the world. As investors search for the highest return, many of them are loading U.S. assets, which is tantamount to selling the greenback, thus weakening its value.

### SOME PERSPECTIVE ON THE DOLLAR



aggressional testimony, but he did say that the Fed would not be "indifferent" to its fluctuations. And Greenspan seemed to point to two solid supports that should be bolstering the U.S. currency: He said that the U.S. outlook was the "brightest in decades" and that inflation prospects were "quite reasonable."

### HOW MUCH OF A DRAG ON GROWTH?

The key question now: Does all this dollar shuffling cloud that bright outlook? The short answer is, not by much. On the plus side, a weaker dollar will help a little in blunting the yawning U.S. trade deficit by making exports cheaper and imports costlier. A minus, though, is that the ailing greenback further fuels inflation fears. Those worries seem minimal, however. To begin with, the decline of the dollar vs. the mark and the yen exaggerates the sagging greenback's inflation impact, compared with the broader picture of U.S. trade. Since January, the trade-weighted value of the dollar against the currencies of 10 of America's largest trading

partners is down only 3% (chart). The U.S. unit is higher than its year-ago level, and that doesn't include the currencies of developing nations such as Argentina, Brazil, and China, which effectively peg their currencies to the dollar, negating the weaker dollar's inflation impact.

Still, there is an undeniable correlation between the dollar and import prices. And since imports now fill a record 25% of U.S. demand for nonoil goods, some inflation impact is inescapable. During the past year, the inflation rate for nonpetroleum imports has risen to about 2%, about double its pace of a year ago. That's not very much, though, and there is no sign that the speedup is affecting the producer prices of finished goods (chart).

In fact, the overall argument that U.S. inflationary pressures are rising remains difficult to make—in the face of tame producer and consumer prices and of signs that growth is cooling off. The Fed's June 22 report on regional economic activity stated that "growth has moderated recently" in some areas. In addition, foreign trade is shaping up to be a drag on growth during the second quarter, at a time when consumer spending and industrial output are also slowing.

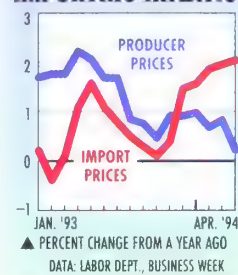
### IMPORTS ARE STILL SETTING RECORDS

Indeed, if there is one reason to be bearish on the dollar, it is America's deteriorating trade deficit and its difficulty attracting the foreign capital needed to finance that gap. In the first quarter, the U.S. current-account deficit, which includes trade in goods and services as well as certain financial flows, swelled to its largest in more than five years.

And in April, the trade deficit in goods and services widened to \$8.4 billion, up from \$6.9 billion in March. Exports slid 3.3%, to \$56.2 billion, while imports edged down by 0.6%, to \$64.6 billion. For merchandise alone, the April deficit ballooned to \$13.3 billion, up from \$11.5 billion. After adjusting for prices, the overall April gap appears to be larger than the first-quarter average. The problem is imported goods, which hit a record for the second month in a row.

In addition to America's ever-growing appetite for imports, another impediment to the trade outlook—and the

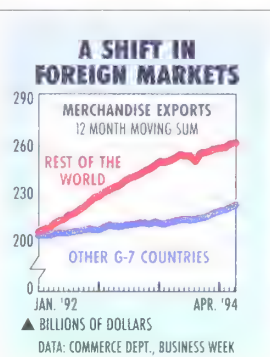
### IS THE U.S. IMPORTING INFLATION?





# Business Outlook

inflation picture—is the rise in oil prices. Crude oil is 30% more expensive now than in January, and it may increase even more before the year is over (page 32).



At their June 15-17 meeting, OPEC members agreed to hold their production quota steady at 24.5 million barrels per day for the rest of the year. By holding output flat, OPEC is hoping that rising demand will help boost oil prices to \$21—a price not seen since 1985. The International Energy Agency forecasts that world demand for OPEC oil will rise to 25.7 million barrels a day by the

fourth quarter, as stronger growth takes hold in Japan and Europe. In the U.S. alone, oil demand in May was 4.4% above its year-ago level.

Rising oil prices will clearly increase America's import bill, but oil may be less of an inflation problem than in the past. The economy's greater fuel efficiency and the stellar gains in factory productivity mean that the U.S. can produce more with less imported oil.

## THE WORLD RECOVERY WILL LIFT EXPORTS

Of course, OPEC is not the only one betting on the global upturn. U.S. exporters are also counting on foreign demand to keep production lines humming even as the weaker dollar enhances their global pricing.

Total merchandise exports slipped 4.2% in April, to \$41 billion, after jumping 12.3% in March, to a record \$42.8 billion. Almost all major goods categories fell, after rising strongly in March. After adjusting for price changes, exports are growing at the same 6.8% yearly pace as in the first four months of 1993, buoyed by capital goods.

The customers are changing, however. Shipments to other G-7 nations continue to be dwarfed by exports to the rest of the world. Just three years ago, Britain, Can-

ada, France, Germany, Italy, and Japan purchased half all U.S. exports. Now, that share has drifted to 46% while demand from such nations as Mexico, Brazil, and South Korea has soared (chart).

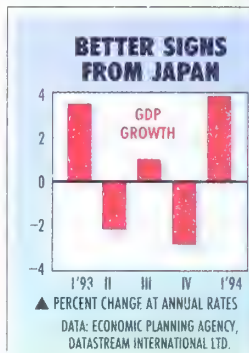
Export figures will begin to pick up even more when other major economies return to stronger growth. Signs of an upturn are evident in Germany as well as the rest of Continental Europe. True, those signs are on the cause of the dollar's weakness, but U.S. exporters need an expanding Europe.

So, too, the latest data show that the worst may be over for Japan. The Economic Planning Agency reported on June 21 that Japan's real gross domestic product grew at an annual rate of 3.9% in the first quarter (chart). That was the strongest pace in three years.

Faster growth and the soaring yen are beginning to draw in more imports already. Lost in this year's trade rhetoric is the 10% surge in U.S. exports to Japan so far this year.

The deterioration in the bilateral trade deficit—\$20.5 billion so far in 1994, up from \$18.9 billion in 1993—can be traced entirely to the 9.4% rise in U.S. purchases of Japanese goods—which outpace U.S. exports 2 to 1. This huge imbalance means that the downward pressure on the dollar vis-à-vis the yen will not dissipate any time soon.

For decades, of course, the domestic priority of balancing growth and inflation took precedence over any foreign considerations. That is still the case today: The Fed will not sacrifice this expansion in order to shore up the dollar. But in the new world order of financial trading, U.S. monetary policymakers as well as borrowers may no longer be able to ignore the powerful influence of international markets.



## THE WEEK AHEAD

### NEW SINGLE-FAMILY HOME SALES

*Tuesday, June 28, 10 a.m.*

New houses likely sold at a 683,000 annual rate in May, unchanged from April but down from the first quarter's pace. That's the median forecast of economists surveyed by MMS International, a unit of McGraw-Hill Inc., and it suggests that higher mortgage rates are starting to cut into home buying.

### CONSUMER CONFIDENCE

*Tuesday, June 28, 10 a.m.*

The Conference Board's index of consumer confidence likely rose to 88.5 in June, up from May's level of 87.6. Still, both readings would be down from

April's high of 92.1—a sign that job growth is slowing.

### PERSONAL INCOME

*Thursday, June 30, 8:30 a.m.*

Personal income probably rose a solid 0.6% in May, on top of a 0.4% advance in April. Consumer spending likely rose a smaller 0.2% last month, as indicated by the 0.2% decline in retail sales. Outlays dropped 0.1% in April as consumers faced higher tax bills.

### LEADING INDICATORS

*Friday, July 1, 8:30 a.m.*

The MMS survey forecasts that the government's index of leading indicators edged up 0.1% in May, after no change

in April. Increasing materials prices barely offset falling stock prices and rising jobless claims.

### CONSTRUCTION SPENDING

*Friday, July 1, 8:30 a.m.*

Outlays for building projects probably rose 0.9% in May, following big gains in the previous two months.

### NAPM SURVEY

*Friday, July 1, 10 a.m.*

The National Association of Purchasing Management's business index likely fell slightly, to 57.5%, in June, down from 57.7% in May. The big question is whether the price index, which soared to 71.5% in May, fell back in June.

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## **BELLSOUTH**



JULY 4, 1994



It always seemed incongruous that Michael A. Miles, CEO of Philip Morris Cos., the world's largest cigarette maker, didn't smoke. But the significance of his resignation on June 17 was all too clear. Miles, the main advocate of a plan to split Philip Morris into separate food and tobacco companies, was suddenly replaced by Geoffrey C. Bible, an avid and unapologetic smoker—and a true believer in the war Philip Morris and other tobacco companies are waging against the growing antismoking legions. "It is our intention to defend our industry and consumer briskly and strenuously," Bible said at a news conference on June 21, brandishing a Marlboro menthol. "And you will see more of this."

No running. No hiding. No splitting off a business that to many seems doomed—in the U.S. at least—to be regulated or legislated out of existence. Despite complaints from some large shareholders, Bible and his board will keep Philip Morris intact. In fact, the executive shakeup is the latest and most visible manifestation

# TOBACCO DOES IT HAVE A FUTURE?

1965

42.4%

**SMOKERS AS A  
PERCENT OF U.S.  
POPULATION, 18  
AND OVER**

1970

37.4%

1974

37.1%

## STRATEGIES FOR SURVIVAL

### SEND IN THE LAWYERS

As legal pressures mount, the industry's strategies have grown more aggressive. On Feb. 1, Philip Morris challenged a San Francisco smoking ban in court, and tobacco companies have threatened to do the same in Maryland. Philip Morris sued ABC on Mar. 24, seeking \$10 billion in a defamation case.

### HIRE THE RIGHT FRONT MEN

Philip Morris CEO Michael Miles, a former food exec, didn't lobby aggressively for tobacco causes. He abruptly resigned on June 16. His replacement: Geoffrey Bible, a career tobacco man who frequently appears in public holding a lit cigarette. R.J. Reynolds CEO James Johnston is featured in full-page ads with a smoke.

### LOBBY, LOBBY, LOBBY

Tobacco companies aim to shape smoking laws—and want retailers and smokers to join the battle. In California and elsewhere, they want to replace local anti-smoking initiatives with less restrictive statewide rules. And tobacco wants other industries to help fight a Florida law that would charge them for tobacco-related health care.

### PUSH PUBLIC RELATIONS

The industry has started courting the press aggressively. R.J. Reynolds execs are meeting with local reporters and politicians on a 28-city tour. Ad campaigns tout smokers' rights and freedom of choice. And after a TV program charged them with "spiking" cigarettes with nicotine, manufacturers opened up factories to the FDA.



of the industry's survival strategy: retreat on any front.

Far from giving ground in the face of nationwide attacks by antismoking forces—as well as fresh revelations about the knowledge of the health risks of smoking and the addictive properties of nicotine—the tobacco companies are fighting back. Through massive public-relations campaigns, federal, state, and local lobbying efforts, ultra-aggressive litigation strategies, and sheer business acumen, the \$47 billion industry has launched a bold counterinsurgency aimed at pushing back its enemies, at least holding them off indefinitely at bay.

**THE OFFENSIVE.** In Florida, tobacco lobbyists have converged en masse to try to repeal the state's controversial new antitobacco law (page 26). In California, the industry has poured more than \$10 million into lawmakers' campaign war chests in an attempt to influence their votes in numerous antismoking proposals. In the courts, they have gone on the offensive against critics: Philip Morris recently sued Capital Cities/ABC Inc. in a \$10 billion defamation case and challenged a strict smoking ban in San Francisco. Industry powerhouse R. J. Reynolds

Tobacco Co. has launched a series of national advocacy ads to drum up grassroots support and has sent its scientists and other representatives on a 28-city tour to woo local media and politicians.

The way the tobacco companies see it, they have no choice. To allow any breach in the granite wall the industry has erected between itself and liability for

cy Institute, a Washington antismoking group. Philip Morris and RJR spent more than \$235 million on ads for the 15 months ending March, 1994, according to Competitive Media Reporting. Tobacco companies spent \$5.6 million in federal contributions during the 1992 election, according to the Center for Responsive Politics.

Although last year total profits fell 46% as a result of rampant price-cutting, tobacco makers have the muscle to put up a strong fight. Four of the six major tobacco companies in the U.S.—Philip Morris, RJR, Brown & Williamson, and Lorillard—remain enormously profitable. They, along with the weaker sisters, American Tobacco Co. and Liggett Group Inc., posted a combined operating profit of \$5.2 billion in the U.S. in 1993. The biggest players, Philip Morris and RJR, earned an additional \$3 billion from their rapidly expanding

overseas markets (table, page 26). This year, the industry's domestic profits should rebound 12%, to \$5.8 billion, on flat sales, says Gary Black, a tobacco analyst at Sanford C. Bernstein & Co., which owns 10 million shares of Philip Morris stock.

The biggest gains will be by Philip Morris, whose domestic profits should rise 15% this year, to \$3.2 billion on \$11 billion in sales, says Black (page 26). Reynolds' domestic profits could jump 12%. Lorillard Inc.'s income could jump 15% to 20%, to roughly \$460 million on \$1.5 billion in sales, while Brown & Williamson Tobacco Corp.'s is projected to increase 10%. "The tobacco business has never been stronger," says R. William Murray, PM's new chairman.

The question is: How long can it stay that way? With smoking in the U.S. declining, lower prices depressing margins, and the looming threat of an excise-tax



ADVERTISING REGULATION BY THE FDA COULD UNSADDLE THE MARLBORO MAN

smokers' ills could invite the kind of massive litigation that spelled the demise of the asbestos industry. But tobacco's stiff defense isn't limited to the courts: Antismoking laws, attempts to hike cigarette taxes to pay for health care, and efforts to regulate cigarettes like a drug are being countered with equal tenacity. "Those who get wealthy selling tobacco will fight to the very end to continue to sell it," says antismoking activist Matthew L. Myers.

And they'll pay whatever it costs to do it. Legal fees alone could account for up to \$600 million annually, says the Advocacy





increase—not to mention the increased cost of putting up a spirited defense—many analysts believe the days of 20% annual earnings gains that the industry enjoyed a decade ago are gone forever.

The growth will have to come from such potentially lucrative markets as China, Eastern Europe, and Latin America. And while some experts believe the industry may eventually have the same problems in Europe and Asia that it does now at home, the developing world seems to have an insatiable appetite for American smokes. "Their original plan was to hold the fort until they could flood the Third World," says Victor L. Crawford, a former tobacco-industry lobbyist. "They've been successful."

With an army of well-connected lobbyists, powerful allies in Congress, sophisticated public-relations specialists, as well as 48 million smokers in the U.S., the industry has formidable weapons at its disposal. The tobacco lobby has thus far prevented an effort in the House to increase federal excise taxes on cigarettes from 45¢ a pack to 75¢. And lobbyists are working to derail a bill that would ban smoking in most public buildings.

**TERSE STATEMENT.** Yet even tougher fights loom. On June 21, David Kessler, commissioner of the Food & Drug Administration, presented before a House subcommittee new disclosures that Brown & Williamson, maker of Kool, Raleigh, and Viceroy cigarettes, had secretly developed a tobacco plant during the 1980s



**PEDDLING BUTTS IN JAKARTA** SALES ABROAD MAY COMPENSATE FOR U.S. MARKET WEAKNESS

that contained double the amount of nicotine found in other strains, then grew it in Brazil. Kessler stopped short of calling for a ban on cigarettes but indicated that the new evidence may induce his agency to seek to regulate nicotine. "We are not focused on regulation of cigarettes, we're focusing on nicotine in the cigarettes," Kessler insists.

B&W released a tersely worded statement: "Dr. Kessler has totally blown this issue out of proportion." But the FDA's gauntlet was thrown: If cigarettes are

sold like drugs, it implied, then manufacturers could be forced to advertise them like drugs as well. No more billboards, no more Joe Camel, no more flashy displays or packaging. "It's not the anti-tobacco legislation that's the biggest problem," says one former tobacco lobbyist. "It's the ability to market your product."

In the courts, a new breed of lawsuits threatens to undermine tobacco's ability to outspend and outlive its opponents. By launching class actions, plaintiffs are attempting to surmount the hurdles that

## FOR PHILIP MORRIS, ANOTHER ADVERSARY: STOCKHOLDERS



Just how bad are things for Philip Morris Cos.? To hear Robert Huberman tell it, not bad at all. Huberman is general manager of Starkman Distributors, which sells cigarettes to casinos, mom-and-pop stores, and markets in Atlantic City. There, Philip Morris' brands are hot. "It seems like everybody's trying to catch up with Marlboro," Huberman says.

Wall Street concurs. Salomon Brothers Inc. analyst Diana Temple figures Philip Morris' second-quarter earnings will be up 16% from a year ago. For the year, profits should rise 16% as well. At Philip Morris, she says, profitability is "coming back more quickly" than anyone expected.

So why is PM's stock still languishing in the low 50s, down from a high of 61 in February? And why

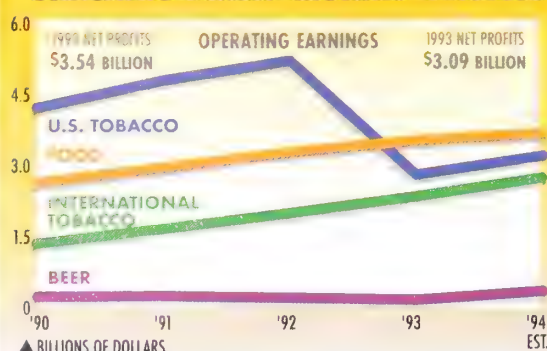
are its biggest institutional investors so rankled? Even now, some shareholders promise that if the company can't get its stock up appreciably by yearend, it almost certainly will face a proxy vote to divide the food, beverage, and tobacco giant at next April's annual meeting. Counters William Murray, PM's new chairman: "We want to improve stockholder re-

turns. That's very, very important. At this time, we have shelved plans to separate the food business."

In large part, investors and analysts blame the company's lagging stock price on Michael A. Miles, who unexpectedly signed as chairman and CEO on Jan. 1. They concede that Miles won the marketing wars: His dramatic move to cut Marlboro's price on Apr. 2 ultimately lifted the brand's market share to 28%, from below 20% and weakened low-priced brands. That's a big reason why its tobacco profits this year will rise 15%, to \$3.2 billion, after a 10% drop in 1993.

But Miles lost the public relations wars. He kept a low profile, alienating investors, analysts, and the public, even as PM was attacked with lawsuits, legislation, and regulatory proposals. "Management has successfully argued its case

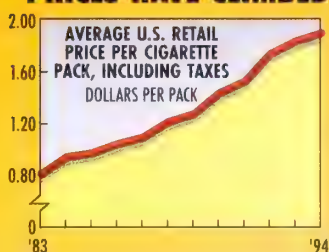
### TRACKING PHILIP MORRIS' PROFITS



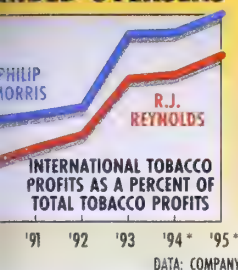


# ACCO THE MBERS

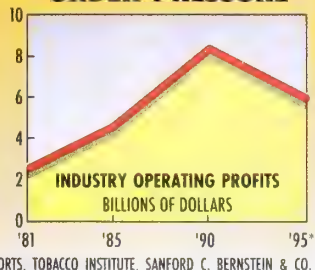
## PRICES HAVE CLIMBED



## FACTURERS HAVE ENDED OVERSEAS



## PROFITS ARE UNDER PRESSURE



re traditionally faced in court when ing on tobacco companies as individu- The latest crop of litigation, which in- des at least seven class actions in six tes, claims everything from unfair ad- tising to second-hand smoke injuries. d more cases are in the works, in- ding suits by state regulators and pri- e litigants under consumer-protection rs, say several lawyers involved in litigation.

Yet cigarette makers are confident y will win. Despite these new legal

the class-action suits and underlying claims," says Bible. "You must remember, we have never lost a case." Indeed, of an estimated 300 health-related suits filed against the industry over the past 40 years, manufacturers have never had to pay out a dime to acusers.

Yet now, tobacco companies face the more dangerous threat of criminal prosecution. Thousands of leaked B&W documents allegedly show a pattern of deceit and misconduct by the industry over the past 30 years. Among the papers are

threats, they say they haven't even set aside reserves to cover any losses—and they don't have insurance to pay for them, either. That's because the tobacco companies intend to pursue the same hardball legal tactics they always have: never settle claims, coordinate with all cigarette makers, wear down opponents, and spend as much as it takes to win. In one smoker's case, industry lawyers took 107 depositions but only used two at trial. "We expect to prevail in all

accounts of efforts to develop safer products, studies that allegedly linked smoking with cancer and other diseases, and an admission of the addictive qualities of nicotine. Despite the critical nature of the findings, however, the company allegedly kept them secret—a decision that prosecutors might argue purposely and unnecessarily endangered public safety. Brown & Williamson has declined to comment on the documents' content.

**HAZARDS.** This has fueled calls for criminal probes into the tobacco companies' business practices. And it appears that those calls may soon be answered. On June 21, lawyers from the Justice Dept.'s Criminal Div. met with Representative Martin T. Meehan (D-Mass.) to discuss launching an inquiry into perjury, racketeering, and conspiracy to defraud the public, among other things.

Meanwhile, Justice is pursuing a civil antitrust investigation into whether tobacco companies secretly agreed to drop efforts to develop safer cigarettes. And a criminal investigation begun in 1992 by the U.S. Attorney for the Eastern District of New York is continuing to examine allegations that manufacturers conspired to use the Council for Tobacco Research, an industry-backed group, to deceive the public about the health hazards of smoking.

Some corporate insiders, in an uncharacteristic admission, seem to recognize the ominous nature of the current atmosphere. "I've been worrying about to-

V. Gregory, portfolio manager at

sive Partners Inc. Murray and Geoffrey C. Bible, longtime tobacco men named to re- siles as chairman and CEO, respec- The two scored points with in- by barnstorming across the the week of their appoint- promising to fight PM's ene- analysts were encouraged—by or an ad campaign, by saber- comments about how much tax the company pays, even 's waving a cigarette. At least o uses the product.

**F IDEAS.** But the public jaw- will only go so far. Philip Mor- executives have agreed to meet or major shareholders on July 13 to their reasons for abandoning a sly discussed proposal to split npany into separate tobacco d companies—the course Miles ny investors had favored. session could run aground on he insider called "Henry Kis- ke issues" such as who will ate, the format, and where it

will be held. Still, the company's will- ignedness to meet was seen as a step for- ward. "We are certainly open to enter- taining other ideas and strategies, but they have to be shown to us, commu- nicated to us, and that has not been done

yet," says Anne Hansen, deputy director of the Council of Institutional Investors.

Beyond that, investors say Murray and Bible must make good soon—say, by August's board meeting—on their promise to boost shareholder value. Shareholders and analysts are looking for an aggressive stock buyback of \$2 billion to \$3 billion annually for four to five years. And a big dividend boost "would send a signal to liti- gants," says one PM watcher.

Changes at the company's food operation also seem likely. Analysts and former executives widely expect a spin-off or sale of its \$4 billion food-service unit; though results have improved, analysts say its operating margins are still anemic, at about 3%. Wal-Mart Stores Inc. could be a buyer, but neither company will comment. Kraft General Foods Inc.'s \$1 billion food-ingredients business is another candidate for spin-off. Will that be enough? To see if it works, watch the stock price.

*By Jonathan Berry in New York and Greg Burns in Chicago*



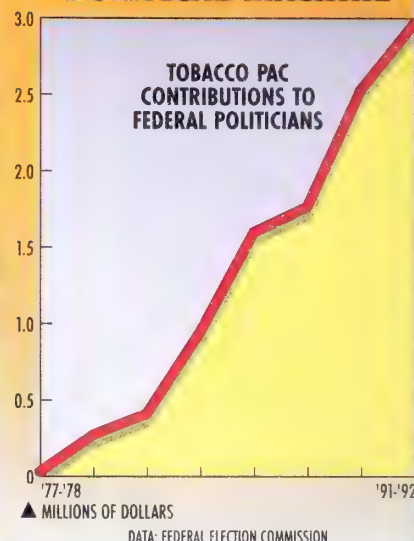
**BIBLE AND MURRAY: PONDERING A STOCK BUYBACK?**

PHOTOGRAPH BY JEFFREY LOWE. CHART BY ALBERTO MEYER-BAY





## TOBACCO'S POLITICAL MACHINE



“tobacco-related issues from a litigation context for about 10 years,” says a tobacco company source, “and, quite frankly, I’ve not seen anything like what’s gone on the last three months.”

But doomsday scenarios could be premature. Legal battles in the civil arena are typically protracted. This is particularly the case with tobacco defendants, who have the money and desire to take advantage of every legal avenue available. And legal experts say that even if the companies lose a handful of cases, their aggressive tactics will keep plaintiffs from seeing their awards for years to come.

The new class actions will be no exception. Plaintiffs want to avoid having to prove the cause of each class member’s illness—a hurdle that has historically been tough to overcome. Instead, they plan to rely on scientific studies that show what percentage of disease is linked to smoking, contending that it would be too difficult, expensive, and burdensome to produce medical data for individual plaintiffs. But the tobacco companies are intent on fighting this tack, arguing that they can’t be asked to pay for specific health costs based on general statistics. “They will have to prove what the situation is for each person,” says Robert C. Weber, a partner with Jones, Day, Reavis & Pogue and a member of RJR’s outside legal team.

That will be a costly endeavor that may not prove worth it. A June 1 study commissioned by Sanford C. Bernstein & Co. found that while potential jurors believe cigarette makers are evil, they don’t necessarily want to compensate

smokers, states seeking Medicaid money, or anyone exposed to second-hand smoke. Sympathy for plaintiffs, says Peggy Shelly, a market researcher who moderated the groups, “didn’t translate into money against the industry.”

The legal wrangling won’t just be in court. Industry representatives traveled on to San Antonio to mingle with state attorneys general at their annual meeting that began June 22. Their goal: to dissuade a growing cadre of antitobacco lawyers from following the lead of Mississippi, which on May 23 filed a class action against cigarette manufacturers seeking reimbursement for Medicaid expenditures for tobacco-related illnesses. Their efforts may be too late. West Virginia is likely to soon take action. And Mississippi Attorney General Mike Moore says, “I’ve had a lot of inquiries from my brothers and sisters in the attorneys-general business.”

**LAVISH SPENDING.** Legislatively, though, tobacco lobbyists are out in force in states such as Maryland, Massachusetts, Minnesota, and California, where anti-smoking sentiment is rife. In Maryland, lobbyists successfully killed the majority of antismoking bills since the beginning of the year.

In California, where 200 local anti-smoking ordinances have passed in the past two years and continue to pass, on average, at a rate of one per week, an industry-backed referendum that would preempt all those ordinances with more lenient rules about where smokers can light up is expected to make it on the state ballot. Since 1990, the tobacco industry has spent lavishly in California—

giving Assembly Speaker Willie Brown alone over \$200,000 in the last election year. According to Stanton A. Glantz, professor of medicine at the University of California at San Francisco, the average contribution to California legislators is \$10,400—more than twice what the industry gives to federal legislators.

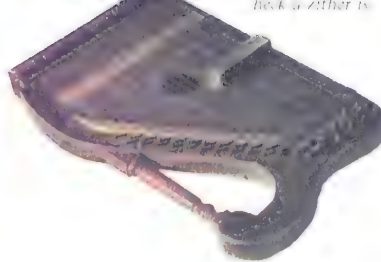
At the same time, tobacco lobbyists appear to be having success watering down the impact of Proposition 99, which was passed in 1988 and imposed a 25¢ per-pack tax on cigarettes, the spoils of which went to fund medical and education programs and an anti-smoking advertising campaign by the Health Department. “It looks like they’re going to gut the program,” laments Glantz.

As it pursues its agenda in legislatures and the courts, the tobacco industry has embarked on a well-crafted plan to bolster its image. Reynolds and Philip Morris have turned to their constituencies to help out. RJR, for instance, set up a toll-free number for consumers to call when they hear of antismoking initiatives. “We can’t learn of every antismoking plan the very moment it comes up,” wrote one Reynolds executive in an April 22 letter sent to smokers. “That’s why we count on you.” Philip Morris gave smokers and shareholders a blueprint earlier this year for writing letters to lawmakers to oppose the tax increases on cigarettes.

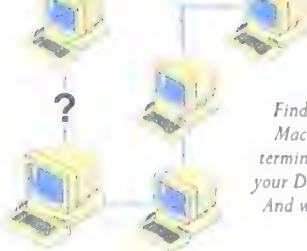
Tobacco executives recognize they still have a serious image problem. “We need to make people understand that the cigarette industry is not made up of a bunch of evil people,” concedes Steven C. Parrish, general counsel to Philip Morris.



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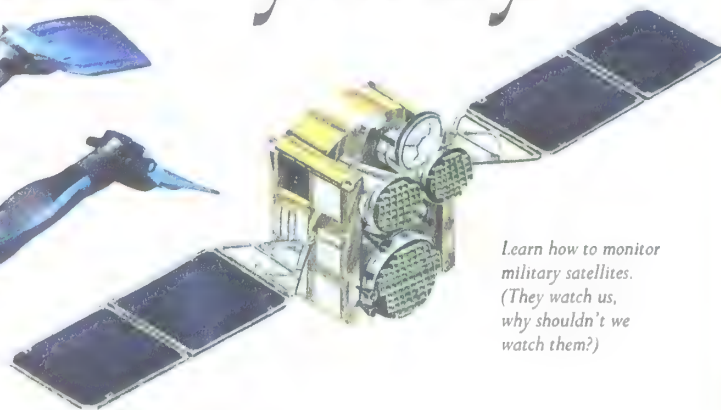


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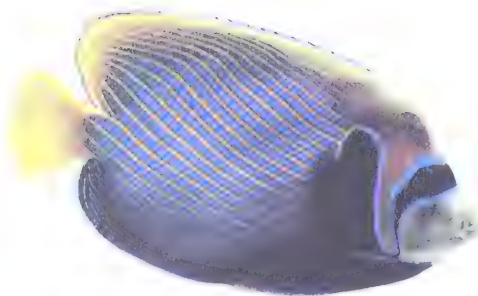
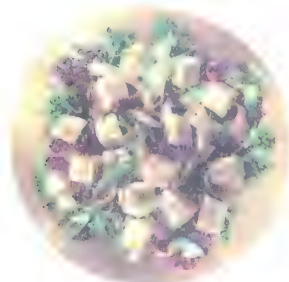
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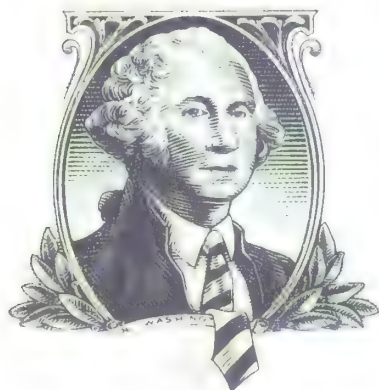
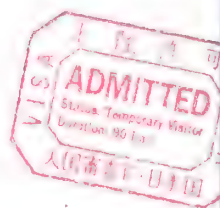


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A, the company's domestic tobacco division. "I think it's going to take a lot to restore our credibility."

Credible or not, the tobacco industry's al power lies in the massive amounts cash its flagship product throws off every year. Tobacco executives say they n't truly fear regulation by the FDA, in ge part because the government can't ord to give up the billions of dollars it ects annually in income tax from cigarette manufacturers and in tobacco ex-

cise taxes it collects from states. Philip Morris paid \$12.9 billion in excise and income taxes in 1993, and Reynolds paid \$3.9 billion.

A host of regulators, legislators, and antismokers want to sharply regulate the tobacco industry or even shut it down. Yet while smoking may be increasingly socially unacceptable, it isn't going away. The economic, legal, and legislative forces that keep the industry strong are too well entrenched. And it's

unlikely that the quarter of the population that truly enjoys smoking will stand idly by while antismoking forces further curtail their liberties. Like cigarette smoking itself, the U.S. may find that the tobacco industry is a difficult habit to kick.

*By Linda Himmelstein and Laura Zinn in New York, with Maria Mallory in Atlanta, John Carey and Richard S. Dunham in Washington, and Joan O'C. Hamilton in San Francisco*

## FLORIDA MAY KICK THE TAR OUT OF TOBACCO



John French points out the titles lining the desk in his Tallahassee (Fla.) office: *Julius Caesar*, *The Art of War*, *The Prince*, to name a few. A Viking helmet rests on his coat tree. This is a man of war, a lobbyist who does battle for companies with big problems. Philip Morris Cos. is one of French's biggest clients—and now, the one with the biggest problem.

On Apr. 8, in the waning hours of the spring legislative session, Florida Governor Lawton Chiles slipped through the toughest legislation ever aimed at the tobacco industry, a law that authorizes the state to sue cigarette makers for reimbursement of about \$300 million a year in Medicaid expenses for smoking-related illnesses.

**BLOODY FRAY.** It's a precedent that even French admits could knock mighty tobacco to its knees. Several states are exploring similar legislation. Buoyed by his victory, moreover, legislators in the U.S. House and Senate are considering copycat federal bills. The upshot? The industry that has never paid a penny in damages is staring into an abyss of virtually automatic multibillion-dollar payouts. "The [legislation] we have does to the heart of really taking tobacco down," crowds Chiles.

The stealth amendment, slyly attached to an innocuous Medicaid bill, as a shocking comeuppance for the tobacco gang. "It really screwed up my golf game," French laments. But his legions are back in the trenches now. French has mustered as allies the Associated Industries of Florida Inc., the state's 6,000-member business-lob-

by behemoth, which worries that the law may affect its nontobacco members. In addition, at least a dozen fresh tobacco lobbyists have blanketed the state to meet with legislators and editorial boards, hoping to win support in condemning the new law as anti-business.

This promises to get ugly. The governor claims the industry has offered to suffer a new tobacco tax in exchange for the Medicaid law's repeal. Tobacco lobbyists deny that—and their explicit strategy is considerably tough-

share in the state, rather than tying individuals' medical costs to the brands they smoked. AIF, funded in part by PM and other tobacco makers, is making that argument in frequent full-page newspaper ads.

**'FOREST FIRE.'** But many think it is already too late for such strategies. "My intuitive feeling is, we've got the start of a runaway forest fire here for the tobacco industry," says Robert McKnight, executive vice-president of the Florida Chamber of Commerce. Chiles has instructed the state's lawyers to sue tobacco companies upon the law's July 1 effective date. Florida is consulting with Harvard University law professor Laurence H. Tribe to fend off legal strikes from the tobacco industry. And Chiles has said he will entertain proposals to restrict the new law to tobacco, in an effort to appease general industry. That could weaken Associated Industries' support for its tobacco brethren.

More important, Florida's tobacco team increasingly appears to be losing control of what has become a national issue. Democrats on Capitol Hill view Chiles's health-care proposal as a precursor to the Clinton plan; they could pressure Florida Democratic legislators to oppose the cigarette makers' repeal stratagem. More damaging, Senators Frank R. Lautenberg (D-N.J.) and Tom Harkin (D-Iowa) on June 23 introduced a federal bill based on the Florida law. Representative Henry A. Waxman (D-Calif.), the industry's longtime foe, plans to follow suit. Tobacco lobbyists have vowed to stand tough. But in the political swampland of Florida, they may have little ground left to stand on.

*By Maria Mallory in Tallahassee, Fla.*



**CHILES (RIGHT): HIS HEALTH-CARE BILL MAY BECOME A TOBACCO TARGET**

er. They hope to attach a repeal of the antitobacco amendment to Chiles's dearly sought health-care-reform legislation, which would subsidize health benefits for the working poor—effectively parrying two of his pet proposals in what promises to be a bloody election-year battle for the incumbent.

If that doesn't do the trick, tobacco industry attorneys may challenge the law's constitutionality. They claim the law is vulnerable because it strips the industry of many of its legal defenses and incorrectly assumes a statistical link between smoking and illness. Moreover, they say, it would assess damages based on companies' market



# 'THE MARKETS SMELL BLOOD'

DOLLAR SHOCKS ARE PUTTING CLINTON IN A BIND



**P**resident Clinton was just getting ready for a relaxing summer of the home front. Economic growth was slowing to a sustainable level, inflation was at low ebb, job creation was picking up, and long-term interest rates were settling down. White House advisers were hoping financial markets would finally signal their approval of the President's economic stewardship.

Instead, foreign exchange markets responded with a stunning vote of no-confidence in the U.S. dollar and, by implication, Clinton's leadership. A flurry of selling that began June 17 put the greenback on the brink of free fall against the Japanese yen, the German mark, and other major currencies. On June 21, the dollar briefly dipped to 99 yen—its lowest point since the modern exchange-rate system was established at Bretton Woods a half-century ago.

Even though the dollar edged back above 100 yen on June 22, partly because Japan began buying dollars, traders were predicting the greenback eventually would plummet to 90 yen—and the 1.5 German marks from its current 1. level. The possibility of turmoil in the stock and bond markets loomed as well. "The markets right now smell blood," says Albert Soria, foreign exchange manager in New York for Kansallis-Osake-Pankki, a Finnish Bank. Even dollar bulls confident about the U.S. outlook started caving. "I don't think this should be happening," says Nicholas F. Sargen, managing director of Newark (N.J.)-based Global Advisers. "But I'm not going to fight the tape."

**BENIGN NEGLECT.** To be sure, the dollar's plunge was partly owing to factors the White House couldn't immediately control. With the U.S. economy cooling from its earlier heated pace and recovery starting to take off in Europe and Japan, many investors began shifting funds from the U.S. to foreign markets. The U.S. current-account deficit, which widened to a five-year high of \$32 billion in the first quarter, also depressed the dollar.

But some market pros say the fall in the U.S. currency reflects more than just economic fundamentals. They blame the Clintonites for a policy of benign neglect that tolerated a continual slide in the dollar. Indeed, the Administration initially resisted calls for it to fight for a stronger dollar by arranging a massive dollar purchase, as it did on May 4, by

the Federal Reserve and other central banks. "The U.S. is going to have to go back into the market to prevent a dollar crisis," predicts Robert D. Hor

**THE TOKYO EXCHANGE: THE DOLLAR HIT A POSTWAR LOW OF 99.9 YEN**



ts, vice-chairman of Goldman Sachs International Ltd.

But Treasury Secretary Lloyd Bentsen gave no indication of imminent action. On June 22, he issued a tepid statement that expressed "concern" about the dropping dollar and promised that the U.S. and other major industrial nations—the Group of Seven—were poised for a rescue if needed. The same day, Federal Reserve Board Chairman Alan Greenspan ducked queries from Congress about whether he would hike rates to prop up the dollar.

Washington's response to the dollar mess failed to reassure traders, many of whom feel that even another massive campaign to buy dollars will prove futile. Says a trader for a big New York bank: "Intervention would just give me the opportunity to get out of my dollar positions."

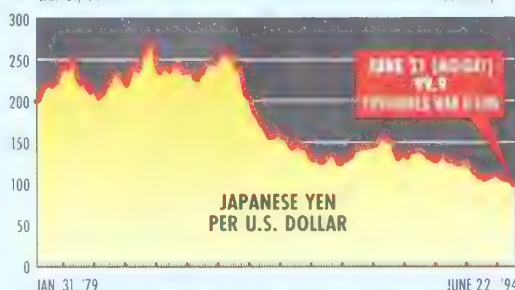
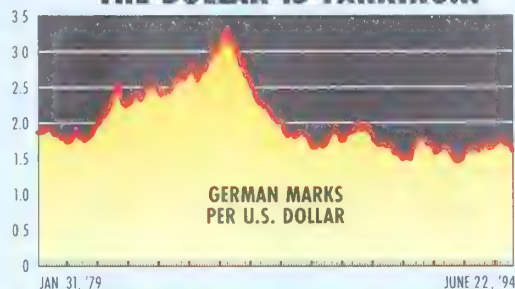
**INTENSE SCRUTINY.** Why no quick response from the Clinton Administration? "We didn't want to draw a line in the sand that wouldn't hold," says one Treasury Dept. official, who fears that an intervention that failed to reverse the dollar's slide might precipitate a free fall. Nevertheless, the Administration's reluctance to act only reinforced views among market experts that it actually favors a weak dollar in order to reduce its trade deficit—even though Bentsen insists that's not true. "It's very hard, if not impossible, to reverse the perception in the markets that the U.S. is not going to support its currency," says David C. Mulford, a top Treasury Dept. official under Reagan and Bush.

The consequences of a cheaper dollar could reverberate across the globe. European governments, faced with high unemployment and weak consumer demand at home, have come to depend on exports to fuel the Continent's recovery. But higher Euro currencies could price European exports out of foreign markets and slow nascent economic recoveries on the Continent. For Americans, who could see exports boom with a cheaper dollar, the greatest danger is higher interest rates and rising prices for imports.

The threats posed by the dollar's slide have come under intense scrutiny at the White House. Indeed, some Clinton advisers now worry that a blown currency crisis could occur on the eve of the July 8-10 economic summit in Naples. The fear is that the summit's

**CHAIRMAN GREENSPAN: WILL HE BE FORCED TO RAISE RATES AGAIN?**

## THE DOLLAR IS TANKING...



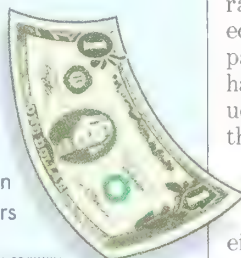
## ...AND IT MAY NOT HAVE HIT BOTTOM YET

**INTEREST RATES** Due to slowing U.S. growth, the Federal Reserve may be loath to defend the dollar with yet another rate increase. Meanwhile, European central banks are likely to push rates up—drawing investment to the Old World.

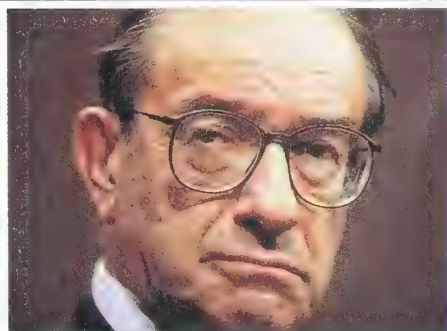
**CONFUSED DOLLAR POLICY** The Clinton Administration disavowed using a cheap dollar to open markets and cut trade surpluses. But traders suspect the Clintonites still favor a cheap dollar.

**INFLATION FEARS** Traders believe that the Fed won't fight inflation as aggressively as the Bundesbank. Worries about higher U.S. inflation are discouraging offshore investors from holding U.S. assets.

DATA: DRI/McGraw-HILL



modest agenda—discussing a hike in Russian aid and how to boost global employment—might displease traders expecting strong economic coordination. Frets a Clinton adviser: "If the leaders have nothing to say that makes the financial markets happy, the dollar could fall more. Some of us are trying to



point that out to the President."

But active support for the dollar carries certain risks. Intervention, which comes at a great price to other central banks around the globe, is beginning to wear thin with some U.S. allies. William P. Sterling, an international economist at Merrill Lynch & Co., estimates that by yearend, foreign central banks will have spent more than \$150 billion in over two years to prop up the dollar—in effect, returning two-thirds of the U.S.'s \$231 billion current-account deficit during that period.

By itself, moreover, intervention will do nothing to quell inflation fears that are growing in European markets. That may lead Germany and other countries to pressure the U.S. to raise its interest rates. Some experts believe the only thing that could bolster the dollar would be yet another hike in interest rates from the Federal Reserve Board. "The reason the dollar is so weak is because the Fed's policy is still accommodative," says former Reserve Board governor Wayne D. Angell, who has urged the central bank to raise its rates more aggressively.

**FIXING A FLOOR.** Although Greenspan is reluctant to tamper with rates at a time when the U.S. economy is growing at a moderate pace with little inflation, he may have no choice if the dollar continues its swoon. One solution: raise the discount rate—the Fed's lending rate for banks—from 3.5% to 4%. It would be a symbolic move that would reassure foreign markets but have no impact on the U.S. economy because banks rarely borrow directly from

the Fed. But many traders think that only an increase in the federal funds rate—the rate banks charge each other for overnight loans—will cool the market's jitters and put a floor under the dollar. The Fed has already hiked the funds rate to 4%, but some traders would like to see it rise still another point or more.

European and U.S. officials believe that if they can ride out the present storm, currency markets will calm this fall. By then, the world's major economies should be in harmony, producing modest growth with low inflation—and more stable currencies. Meanwhile, though, it could be a long, hot summer for Bill Clinton.

*By Dean Foust in Washington and Bill Javetski in Paris, with William Glasgall in New York*



OIL

A TANKER OFF  
ALASKA: MORE  
OIL HEADS EAST



## PAIN AT THE PUMP

Why higher crude prices may amount to much more than a blip

**A**hh, summer. Time for some time off. With the dollar in the doldrums, interest rates soaring, and financial markets tanking, you certainly could use it. But after forking out as much as \$1.50 a gallon to fill 'er up on the way to the beach, you realize there's one more item you need to worry about: higher oil prices.

That's the message the 13 OPEC oil ministers broadcast to world consumers as the cartel wound up its deliberations in Vienna on June 19. In the face of surprisingly high demand for oil, OPEC decided to cap its production at 24.5 million barrels a day until late in the year. The market's predictable reply: Oil futures contracts on the New York Mercantile Exchange shot up to \$20.75 a barrel on June 20, their highest levels in 15 months.

OPEC alone is not to blame for what is a 30% runup in crude prices since January. Markets are worried about the Yemeni civil war and the possible ramifications of a nuclear standoff in North Korea. And expectations that

the U.N. Security Council might lift its four-year embargo on Iraqi oil exports—flooding the market and dampening prices—have evaporated.

More important, for the first time since the gulf war, world oil demand is starting to perk up (chart), thanks to rebounding economies. Demand this year will rise by a healthy 500,000 to 600,000 barrels a day, to 67.3 million, predicts Cambridge Energy Research Associates Inc., an industry consultant. Demand from the former Soviet Union is still slumping. Rising energy needs in Asia and the U.S., though, mean that the rest of the world must come up with

1.3 million barrels a day in fresh supplies this year.

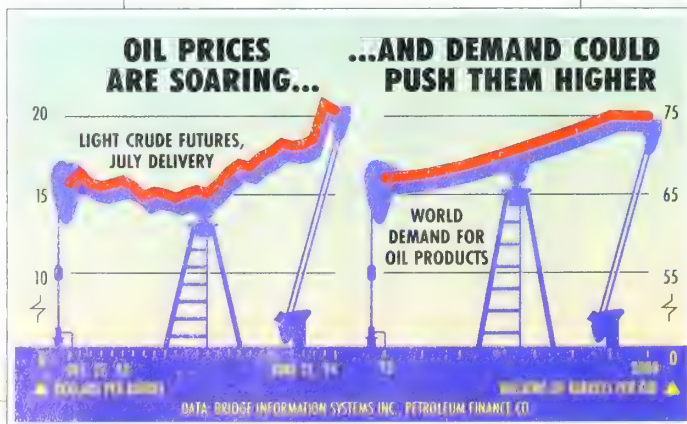
Meanwhile, supplies are being squeezed. Just about the only spare production capacity remaining is in OPEC's hands—and there isn't much of it. If the cartel were pumping at full throttle, it would produce only 27.5 million barrels a day, or 10% more than current production. "OPEC is operating at a higher capacity [utilization] than it was during the oil shocks of the 1970s," says Robin West of Petroleum Finance Co., a consulting firm in Washington. "The margins are now very, very narrow" between what's pumped and what the world is consuming.

**IN MOTHBALLS.** That's because, until recently, oil cost less in real terms than it did in 1970. The past three years of price weakness have beggared even the richest members of OPEC, including Saudi Arabia. The result: Billions of dollars of oil-patch investments have been mothballed, or canceled altogether. Thanks to the severe price slump following the gulf war, for example, Riyadh downsized costly plans by state-owned Saudi Aramco to increase output to 12 million barrels a day, stopping instead at the current 10 million. Even with higher prices, Aramco will be hard pressed to produce much more any time soon. Most of the major U.S. oil companies, moreover, aren't ramping up capital spending for new exploration.

Production relief could come eventually from Iraq, whose 3 million barrels a day can't be kept off the market forever. But surging demand in such rapidly industrializing Asian countries as China and India ensures that there will soon be a ready market for Iraqi oil—and much more. Asian oil demand, according to a study by Honolulu's East-West Center, is set to rise to 20 million barrels a day in 2000, up more than one-third from 14.7 million today. The higher consumption should keep upward pressure on prices through decade's end, at least.

With Asia set to supplant North America as the world's biggest oil market in the next few years, some worry that Persian Gulf producers could give Eastern buyers the preferential treatment Americans once commanded. "The U.S. could be vulnerable as oil goes east," says Peter Wildblood, chief executive of London's International Petroleum Exchange. Just one more thing to worry about as you gas up the car this summer.

By John Rossant in Rome  
with Peter Burrows in Dallas





# WHY JACK WELCH CRACKED HEADS AT KIDDER

andal, weak results, jittery customers—it really was time to clean house

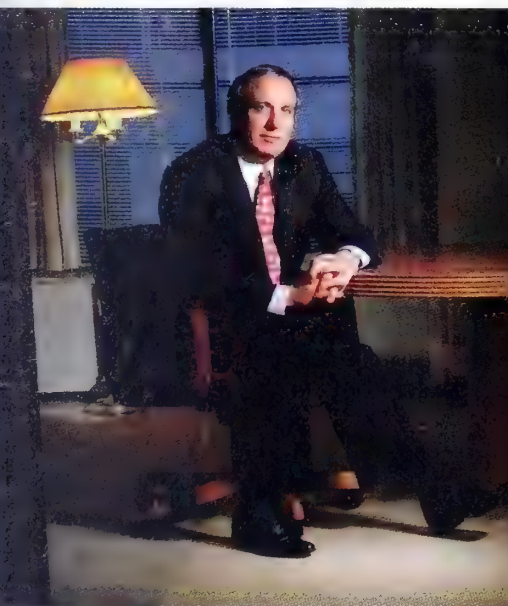
**M**aybe it was Joe Jett's revenge. Ever since the former Kidder, Peabody & Co. executive was fired last April for an allegedly fraudulent trading scheme, Kidder has been mired in crippling rumors about its finances. Finally, on June 22, Jack Welch, General Electric Co.'s hard-bitten chief executive, moved to rescue the troubled GE unit. Welch summarily reelected Michael A. Carpenter, Kidder's battered chief—just two months after edging to support him. "When you create uncertainty, companies, institu-

1991 move into the top spot at then-troubled Salomon Inc.

To further quell doubts about Kidder, Welch painted a relatively rosy picture of the firm's finances. Kidder, he says, "has earned \$275 million" after taxes since 1986—which Welch characterized as "neither a home run nor a disaster." And a major worry about Kidder is being taken care of, he said: Kidder recently has reduced its portfolio of mortgage-backed securities from \$16 billion to \$10 billion. Of that amount, Welch says, only \$430 million worth is relatively illiq-

that GE Capital will exercise more direct control over Kidder from now on. Although Kidder nominally always was a unit of GE Capital, Carpenter reported to Welch, bypassing Gary C. Wendt, GE Capital's control-minded CEO and Carpenter's political adversary. Nayden, however, is a protégé of Wendt and will report to an executive committee that includes Wendt and Dammerman. The result: "Denis will work with Gary on synergies" between GE Capital and Kidder, says Les Lieberman, a former Kidder investment banker.

**"OTHER SHOE."** Kidder is not out of the financial woods yet. Because of its troubles, the firm spends more than its rivals do to finance its inventory of mortgage-backed securities. That business—a key moneymaker in the past—will be tested as Dammerman decides whether to shrink Kidder's highly leveraged balance sheet. At the very least, Dammerman and Nayden are likely to broaden



**UNDER EX-CEO  
CARPENTER  
(LEFT), KIDDER  
SUFFERED AS IT  
WAS UNABLE  
TO CONTROL  
THE JETT  
FIASCO.  
SO GE HAS  
INSTALLED  
DAMMERMAN,  
ITS FINANCE  
CHIEF, TO  
STABILIZE  
THE FIRM**



ns can unravel," Welch said at a press conference in New York. "So, our job was to step forward."

In Carpenter's place, Welch brought some of GE's most adept financial slingers. He named Dennis D. Dammerman, GE's chief financial officer and Welch confidant, as Kidder's interim chief executive. Welch also installed Dennis J. Nayden, an executive vice-president at GE Capital Services, GE's large financial arm, as Kidder's president and chief operating officer. Once Dammerman has stabilized the situation, Welch said, Nayden will become president—probably in three to five months. "Dennis and I are neither as smart nor as rich as Warren Buffett, but we like to think we're doing the same thing," said Welch, in an attempt to inspire parallels with the billionaire investor's

liquid inventory. And Welch estimated the firm's second-quarter losses at just \$25 million to \$30 million—a far cry from previous internal estimates that put the shortfall as high as \$100 million.

The question now: Will rescuing Kidder eventually require a full takeover of the unit by GE? Some outsiders suspect that Welch's move is just the first step toward shifting control of Kidder to GE Capital Services. The unit's managers, including Nayden, have proven themselves experts at handling problem assets—from the troubled commercial real estate and leveraged buyout loans of the late 1980s to leased airplanes more recently. Indeed, GE Capital bought out hundreds of millions of dollars worth of junk bonds Kidder owned when the junk market cratered in 1990.

Whatever the plan, it seems certain

Kidder's base to cut its dependence on the mortgage-backed business.

Welch certainly did not dispel uncertainty inside Kidder. Employees got the news from Welch and Carpenter at 12:45 on June 22 on the firm's internal communications system. Some were surprised that Welch acted before the release of Kidder's internal report on the Jett trading scheme, due out in mid-July. And the fate of Edward A. Cerullo, the head of the firm's fixed-income operation, is even more uncertain without Carpenter. "I'm waiting for the other shoe to drop," says one New York employee. But at least Welch has put to rest the most serious questions about Kidder's management.

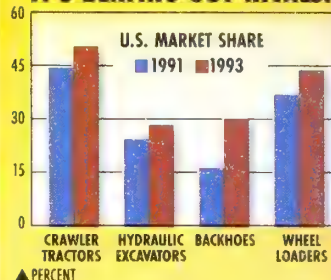
*By Leah Nathans Spiro, with Elizabeth Lesly, in New York and Tim Smart in New Haven*





## CAN CAT COPE WITH A STRIKE?

IT'S BEATING OUT RIVALS...



...BUT INVENTORIES ARE SLIM



\*FOR THE COMPANY'S THREE LARGEST PLANTS ONLY. EXCLUDES DEALER INVENTORIES

DATA: MANFREDI & ASSOCIATES, STARK'S OFF-HIGHWAY LEDGER

## MUCH ADO ABOUT PETTINESS

Cat and the UAW are arguing more and more about less and less

**B**y all rights, Caterpillar Inc. ought to be one happy company these days. Two years of a weak dollar has all but knocked Japan's Komatsu Ltd. off the field, leaving Cat a clear run at the construction-equipment market. Demand is so strong that Cat can't fill many orders for months. As a result, the Peoria company's sales, profits, and market share (chart) are soaring.

So why did some 14,500 steamed-up United Auto Workers members stalk off the job on June 21? Mostly because management didn't know how to be magnanimous in victory. The company won hands-down a 5½-month strike in 1992, when it threatened to permanently replace its UAW employees. But instead of soothing the feelings of defeated workers, Cat has disciplined and fired union members for mostly petty actions such as wearing T-shirts that disparage the company. This has triggered nine local walkouts since November and culminated in Cat locals demanding that UAW headquarters in Detroit allow a company-wide shutdown. "They've done

more to revive the union than anything else," says Alan Musser, a 24-year Decatur (Ill.) worker.

Still, it's by no means clear that the union will emerge victorious in its latest strike. "I hope they know what they're doing," warns former UAW President Douglas Fraser. "It's horribly risky." The threat of replacements still looms large, particularly for the 70% of members within five years of retirement. What's more, because the conflict isn't about wages, some members seem unsure the fight is worth risking their jobs. But even if the UAW's lines break again, the company, too, could lose big. Cat's share price fell 4¼ points, to 102½ on June 21, because investors fear its labor problems will continue anyway.

**T-SHIRTS AND BUTTONS.** Should cooler heads have prevailed? It's hard not to think so. After the 1992 strike collapsed, "many workers were unhappy" with the union, concedes UAW Local 974 President Jerry Brown in Peoria. Union leaders tried to get workers to gum up production by working by the rule book.

But members largely ignored the union request to refuse overtime work or neither productivity nor quality suffered. About all workers did was don T-shirts and buttons with slogans such as "Permanently replace Fites," a reference to Cat's hard-line CEO, Donald V. Fites.

But Fites took the union's bait. Instead of simply ignoring the UAW's toothless gestures, managers disciplined or even fired some dissenting employees. And union officers got similar treatment for taking up such grievances. Over at the National Labor Relations Board (NLRB) has filed 89 complaints against Cat. But the company denies that it has broken federal labor law.

Such harsh behavior has driven many workers into the union's arms. Decatur welder Nancy Waterman, who had been a union activist in her 18 years at Cat, helped to raise \$20,000 from fellow workers to buy TV commercials giving the union's side of the story. Now, she insists, "we will last one day longer than Cat." Says NLRB Regional Director Glen Zipp: "There is a great sense of indignation on the shop floor about what workers feel is unjust treatment."

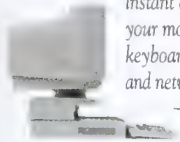
Underlying the inflamed temper, however, are some substantive conflict. Fites still insists that it's unreasonable for the UAW to demand that Cat agree to the same contract the union won from farm-equipment maker Deere & Co. Because Cat faces greater foreign compe-

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tion, he argues, it needs a different pact. And though the fight isn't over wages, Cat contends that its pay package is one of the nation's richest: Including overtime, its average UAW worker earned \$49,000 last year, plus benefits.

The union has other concerns. With the yen digging into archrival Komatsu's competitiveness, workers figure Cat can afford to meet the UAW's central demand: more protection from layoffs. Indeed, far from cutting back, Cat has hired 1,000 new workers this year alone.

Workers' continuing fears of job loss are inflaming the current conflict. To assure members that their jobs aren't at risk, the union called the current strike only over the NLRB complaints, not over contract demands. Under federal law, this protects workers from being permanently replaced. But Cat is playing on workers' fears of losing their jobs. Caterpillar Vice-President Wayne M. Zimmerman announced that the company will hire new permanent workers, although he said that they wouldn't replace strikers. Generally, he insists, Cat "will do what is necessary to operate our facilities."

Such statements have an ominous ring for many workers. In mid-June, Cat initially refused to take back some workers who had mounted a three-day walk-out at its Aurora facility. Even Cat sympathizers say this probably violated federal labor law. "The company's action looked problematical to me," says former NLRB member John Raudagaugh.

**FENCE-SITTERS.** Given Cat's tough stand, many rank-and-filers are nervous about a prolonged walkout. Robert Williams, a 54-year-old Cat worker who is five months shy of retirement, didn't cross the picket line in 1992 but isn't sure what he'll do this time. "I'm not going to lose my pension," he says. Others seem similarly troubled: Cat claims that on June 22, more than a quarter of its Peoria-area workers stayed on the job.

If more fence-sitters return to work, Cat may not suffer much. The company can bring in products from overseas plants: It has excess capacity in Japan, where demand has fallen 15% since 1992. But with factory stocks tight and dealer inventories no higher than normal, a long strike would bite. "It doesn't look like they've built a lot of hedge against a strike," says analyst Frank Manfredi at Manfredi & Associates.

A fight so bitter seems incomprehensible at a company doing so well. But with tempers hot on both sides, reason may not prevail soon.

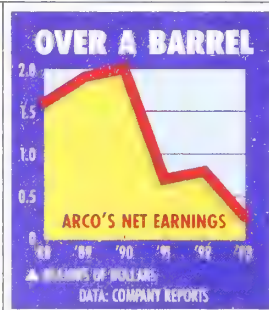
*By Kevin Kelly in Aurora, Ill., with David Woodruff in Peoria, and Aaron Bernstein in New York*

## ARCO NEEDS A FILL-UP

As its Alaskan reserves thin, it begins cutting heads

**B**y major oil company standards, Arco was a latecomer. Formed by the 1966 merger of Atlantic Refining Co. and Richfield Oil Corp., it became the envy of the industry by aggressively developing the massive Alaskan fields discovered by Richfield nine years earlier. Eventually, its huge cache of cheap Alaskan crude made it the largest seller of gasoline in the car-crazed Western states.

Those were the good old days. Now, unable to replace its Alaskan reserves at anything like the pace at which they are being depleted, the Los Angeles-based company is redirecting its efforts. That puts the company's new leader—51-year-old Mike R. Bowlin, the onetime



and transportation units. The cuts, which insiders say could involve more than 1,000 jobs, come on top of past restructuring that has slashed nearly 10% of Arco's total 25,000 person workforce in a bit more than a year.

Now, Arco badly needs to strike it rich in the field. The company's total base of proven reserves has dwindled by 19% since 1989, to 2.5 billion barrels. And Mary K. Quinn, an analyst with S.G. Warburg & Co., estimates that it spent \$490 million to drill dry holes last year, some \$159 million more than in 1992.

**NORTHERN DUDS.** The major disappointments included three duds in a once promising Camden Bay region off northern Alaska. Given the poor results, Arco scheduled only four exploratory wells in Alaska this year, down from 13 in 1993. And it slashed its Alaskan exploration budget by 57% to just \$90 million this year.

Arco has had little success finding oil elsewhere, either. The company currently is drilling in the North Sea and off the coasts of China, Indonesia, and Tunisia—and last year it announced a major discovery in Ecuador. But it produced a mere 79,000



**PUMPING AIR: DRY HOLES COST ARCO \$490 MILLION LAST YEAR**

barrels of crude a day overseas last year vs. 604,700 from domestic sources. To speed up its overseas drive, analysts say, Arco will likely have to make some major acquisitions.

Arco could use a boost. Last year, its net dropped to just \$269 million (chart), including restructuring charges, on \$18.1 billion in revenues. Cost-cutting and rising oil prices will help. But unless there's another Alaska out there somewhere, Arco may have more tough years ahead.

*By Ronald Grover in Los Angeles*

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## MARKETING

### GOLD IN THE GAY GAMES

A \$6.5 million budget and \$100 million for New York's economy

**T**hey came. They competed. They looked fabulous. Then they shopped and partied and poured, officials say, more than \$100 million into New York City's economy before leaving at the conclusion of the Gay Games IV on June 25.

What started out in 1982 as a uniquely San Francisco event with 1,700 athletes and a \$100,000 budget has grown into something worth competing for. This year, with funding of \$6.5 million, the games drew 11,000 athletes, their significant others, and 500,000 or so out-of-town spectators.

And with the cooperation of New York, the Gay Games became less a series of sporting events than a nine-day celebration of culture, complete with parades, plays, music, art shows, and food



THE NEW YORK SPORTS FESTIVAL DREW 11,000 ATHLETES

festivals. As merchants worked overtime to accommodate the revelers, the outside world watched. "There's a lot of future impact there in terms of tourism," says a spokeswoman for the New York Convention & Visitors Bureau.

Others saw business opportunities in the games themselves. Legitimized by mainstream corporate sponsors such as AT&T, Miller Brewing Co., and Hiram Walker & Sons, organizers hope their success marks a sea change in the way companies view these customers. "Marketers who support events like these

straight consumers, says Andrew Isen, president of WinMark Concept Inc. About 60% of the gay population has a college degree, compared with 18% of the general population, Isen says. And gay consumers are five times likely to earn more than \$100,000 a year.

Amsterdam already has snapped up the Gay Games V in 1998, beating out competing bids from Sydney and Atlanta. It no doubt knows that if it lays out the welcome mat, the gay and lesbian community will turn out. And spend.

*By Julie Tilsner in New York*

## PROMOTION

### STILL STARSTRUCK

Despite the obvious risk, marketers keep lining up celebrity endorsers

**H**e was seen by some 95 million people—an audience far larger than those who watched him racing for the goal posts in the Rose Bowl or sprinting for the car-rental counter in more than a decade of Hertz ads. If anyone in America didn't know O. J. Simpson already, his trip down a Los Angeles freeway trailed by a flotilla of police cars was hard to miss. But for Hertz Corp., the fall of one of America's best-known hucksters was a paradox as old as advertising itself: Glamorous celebrity endorsers can very suddenly become mired in scandal.

Other recent examples abound. Girl-wonder tennis champ Jennifer Capriati lost her deal with tennis-racket maker Prince Manufacturing Inc. when she was arrested on marijuana charges earlier this year. And PepsiCo Inc. couldn't moonwalk away from Michael Jackson fast enough after the entertainer was accused of molesting a young boy. Yet even as Simpson was taking his bizarre

tour of Los Angeles, AT&T was signing singer Whitney Houston to an estimated \$10 million TV deal—despite reports of high-decibel marital spats with her husband, rapper Bobby Brown.

Why? Advertisers see little evidence that a fall from grace—even for reasons as heinous as Simpson's arrest on double murder charges—will rub off on them. "Hertz has not been affected at all," claims Joseph M. Russo, vice-president for government and public affairs at the Park Ridge (N.J.) rent-a-car giant. "And O. J. Simpson is as highly identified with the company as he is with football."

**EMERGING MARKET.** In fact, sponsors seem more willing than ever to take risks on celebrities. Wilson Sporting Goods Co. forgot and forgave golfer John Daly's trouble with alcohol abuse, reupping him in June to a 10-year contract, the longest golf deal in the company's history. There's even an emerging market for celebrities who will come down off their pedestals and tell it like it is. Basketball bad

boy Charles Barkley—who is as likely to bark at a fan as hit a jump shot—now commands among the highest fees for any athlete for his commercials for Nike, McDonald's, and Gillette. "The controversy and risk were appealing to us," says Bill Halladay, associate creative director at Bates USA West, which hired Barkley to do a spot for Hyundai Corp. Sonata family sedan.

In the end, sponsors mainly care about what works. Analysts credit Michael Jackson's four-year campaign for Pepsi with a two-point market-share boost—close to \$1 billion a year in sales. And the 1-year contract between Hertz and Simpson is widely regarded as one of the most effective celebrity company pairings ever.

"I'd have been Hertz 10 years ago, even if I could have foreseen what happened to O. J., I'd still have used him," says Halladay. In the star business these days, it seems the rewards outweigh the risks.

*By Larry Armstrong in Los Angeles*



SIMPSON WON'T RUN FOR HERTZ ANYMORE, AND CAPRIATI HAS STOPPED SELLING RACKETS FOR PRINCE





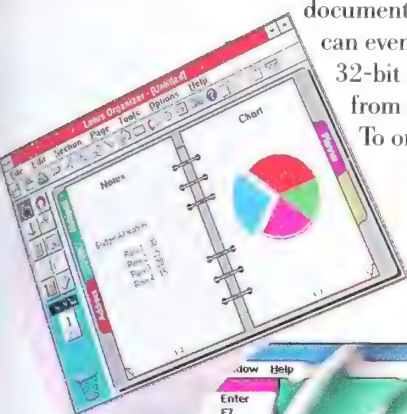
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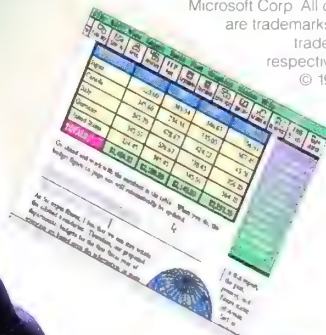
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JENNIFER, JESSICA, SHARYN, AND MICHAEL BERGIN WANT FORMS TO CALL THEM "MUTIRACIAL"

## SHOULD THE CENSUS BE LESS BLACK AND WHITE?

Interracial couples and many ethnic groups say more categories are needed

**F**or months, first-generation Irish American Michael E. Bergin dropped off his blonde, blue-eyed daughter, Jessica, at her second-grade classroom in suburban Atlanta every morning. Then his wife, Sharyn Doanes-Bergin, who is African American, showed up at a school party last Christmas. Said a teacher to Jessica: "I didn't know you were black." In people's minds, "Jessica has to be one or the other—black or white," says Doanes-Bergin. "My children want to be able to claim both their parents, but the government is always forcing them to make a choice."

To avoid that dilemma, the Bergins want federal and state agencies to adopt a new racial category: "multiracial." And they're not the only ones looking for official recognition. Under growing pressure to create a new palette for America's rainbow of races, the Office of Management & Budget will launch a round of hearings, beginning July 7, to reexamine the government's 17-year-old scheme for dividing the U.S. into four races (white, black, Asian, and American Indian) and two ethnic groups (Hispanic and non-Hispanic).

The idea of a demographic overhaul is meeting resistance from traditional civil

rights groups, which fear that breaking out new ethnic groups would cost them political strength. And business worries that a proliferation of categories could be a nightmare for companies that must meet affirmative-action guidelines.

But advocates of the change argue that new categories are needed, both to reflect America's changing demographics and to help new groups win more official attention and aid. Arab Americans want a new racial listing for people of Middle Eastern origin. Hispanics want the Census Bureau to break their 25.7 million population into at least six subgroups. Native Hawaiians argue over whether to throw their quarter-million numbers in with Pacific Islanders or Native Americans.

Multiracial Americans, whose numbers are fueled by a surge in interracial marriages, may have the best chance of gaining a spot in the federal bureaucracy. Three states

now require a multiracial box on school forms, and Georgia will recognize the category of all state-mandated paperwork starting July 1. As states send their multiracial data to the feds, "we're going to build the pressure on Washington to act," says Susan Graham, who heads Atlanta-based Project RACE (Reclassify All Children Equally).

**DILUTED CLOUT?** That worries civil rights groups. The Census Bureau estimates that 75% of the country's 32.7 million African Americans have ancestors of other races. Not all would list themselves as multiracial—but even a 10% switch would reverberate through legislative-redistricting plans, school-desegregation schemes, and fair-housing and lending enforcement. "Any reduction in the size of the African American population would be

counterproductive," says Billy J. Tidwell, research director for the National Urban League.

Business, too, is cool to change. Marketers might welcome new census data that give them more information on groups with distinctive buying habits. But a proliferation of racial categories would be a nightmare for companies that must do complicated statistical analyses of their workforce's racial and ethnic makeup to meet affirmative-action guidelines. A multiracial category would pose special problems: "If my figures show I need multiracial engineers, where do I go to recruit them?" asks Loren L. Kessler, an attorney at the business-backed Equal Employment Advisory Council in Washington.

The OMB hopes to decide whether to overhaul its categories by early 1995. Business opposition could still sink the move, as it did when the OMB tried a similar but less ambitious overhaul in 1988. Ethnic infighting, too, could undermine the drive. But the group pressing for change is getting a receptive hearing in Washington—and that may mean that Jessica Bergin and her sister Jennifer will no longer have to choose between their parents.

By Mike McNamee  
Washington

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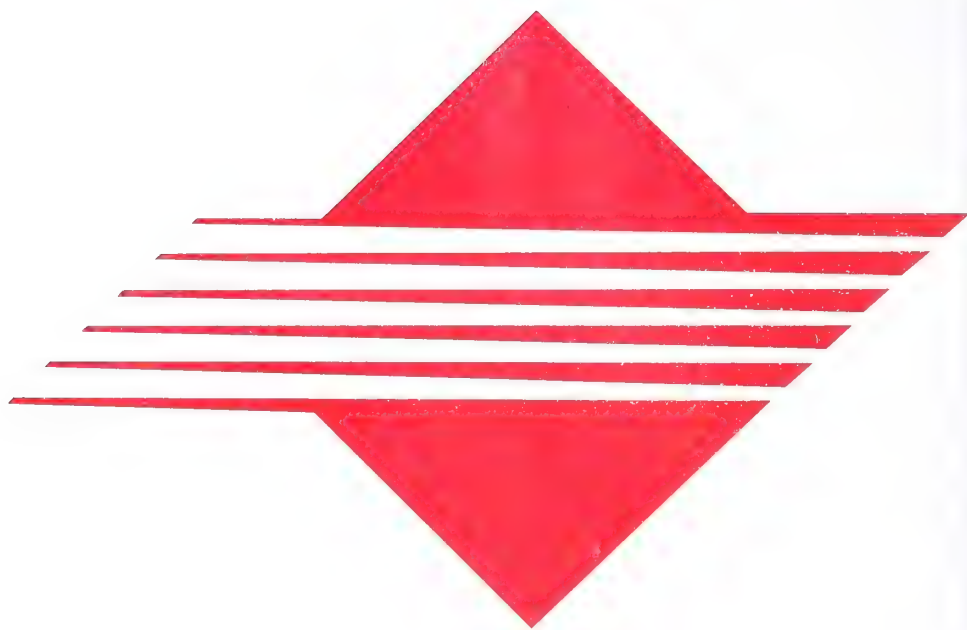


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EDITED BY KEITH H. HAMMONDS

## ONE-STOP SHOPPING AT P&G

If a retailer wants to buy Ivory soap, Jif peanut butter, and Charmin toilet tissue from Procter & Gamble, it has to place different orders, pay on different terms, and take delivery from separate trucks. Now, in an attempt to streamline, P&G is overhauling its logistics. As of Oct. 1, it will simplify its pricing structure and standardize ordering requirements across nearly all of its U.S. businesses. Customers will be able to receive deliveries of all sorts of brands on one truck, with one invoice and one set of terms—and earn a 2% discount if they pay within 19

days. Look for more such moves by U.S. packaged-goods companies. They're trying to slash billions in costs by moving toward paperless links and continuous replenishment of store shelves.

## ANOTHER BLOW TO LOTUS

Shareholders of Lotus Development should be getting used to nasty surprises. In 1988, Lotus delayed a much-anticipated version of its 1-2-3 spreadsheet. Two years ago, a promised sales upturn failed to materialize. And on June 20, Lotus said its new spreadsheet and office "suite" programs would be two months late, leaving sales as much as \$25 million below analysts' estimates for the quarter ending July 2. Even worse, the company admitted that it expects to lose market share to Microsoft. Investors were not kind: Lotus stock plunged 28% on the news, to 37. Three months ago, Lotus traded at 85.

## CALIFORNIA, 1 WORLD, 0

The Supreme Court handed California a victory on June 20, upholding the state's controversial tax scheme for foreign multinationals. Justice Ruth Bader Ginsburg wrote in a 7-to-2 decision that the so-called unitary tax imposed on the California-based subsidiary of Britain's Barclays Bank did not violate the Constitution. The state had taxed a portion of Barclays' worldwide income, instead of just income produced in California. Despite the O.K. from the high court, though, few other states are likely to endorse the unitary tax, mostly because of protests from foreign trading partners. Even California changed its law last year to allow overseas multinationals to choose between a unitary tax and a more traditional method of taxation.

## HEADLINER

### HEADED FOR THE DEAD LETTER DEPT.?

Postmaster General Marvin T. Runyon (picture) could soon get the boot. Postal Governor Robert Setrakian has vowed to raise the issue at the next postal board meeting on July 10 in Boston. In late May, Setrakian gave other members of the board a 10-page "stinging indictment" of Runyon's tenure, says one governor. Setrakian had tried to sack Runyon at the board's June meeting, but no one seconded his motion.

Other governors say they also are unhappy with the Postal Service's performance—they're just not ready to move. And Runyon himself admits the Post Office is having prob-

lems: In a video meeting with top managers in late June, he acknowledged that delivery problems, originally blamed on harsh weather last winter, have persisted. "So far in 1994... we seem to have lost momentum," he said.

Runyon declined to comment on efforts to oust him.

Meanwhile, the postal board is coming under some criticism from Capitol Hill, and pressure is growing to take some drastic steps. Runyon recently fired three top executives.

Several governors say he could be next out the door if his reforms don't show substantial progress by year-end.

By Mark Lewy



## HALLMARK GETS A 'MAYBE' OR TWO

Hallmark Cards sent out invitations months ago. Now, a handful of potential buyers are responding to its offer to sell its Crown Media cable subsidiary. Charter Communications, a St. Louis-based cable operator led by former Crown managers, has told Hallmark it is interested in at least part of the operation. And sources close to the bargaining say others are mulling bids for the unit, which has 890,000 subscribers in 15 states. It might be tough, though, for Hallmark to recoup the nearly \$1 billion it paid in 1991.

## LILLY OFFERS UP A MIXED BAG

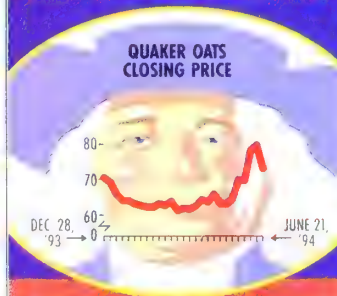
Eli Lilly will try to cash in on its medical-devices businesses. Lilly announced on June 20 it will spin off the

group into a new \$800 million company known as Guidant. The odd name, derived from "guide," is meant to connote industry leadership. But the five companies to be sold are a mixed bag, says Piper Jaffray analyst Edward Mutsek. The strong players: Advanced Cardiovascular System, which makes angioplasty balloons, and Devices for Vascular Intervention, a maker of specialized catheters. The weak siblings: Cardiac Pacemakers and startup Heart Rhythm Technologies.

## ET CETERA...

- Fidelity admitted it published incorrect price quotes for its funds on June 17.
- Warren Buffett pressured USAir to reach a "time agreement" with its unions.
- Comcast won Maclean Hunter's U.S. cable business. It will pay \$1.27 billion.
- Rocker George Michael signed an eight-album deal with Sony. It isn't antitrust, a court ruled.

## CLOSING BELL



## SWISS MISS

The Quaker man in lederhosen? A rumor that Swiss giant Nestlé would bid for Quaker Oats sent shares of the food-maker up 18%, to 81.875, by June 20. Nestlé killed off the frenzy the next day, denying any interest. No surprise. Analysts agree Nestlé could expand Quaker's Gatorade sales overseas. But cereals would be problematic: Nestlé already has a European cereal venture with General Mills. And although a merger of the companies' pet-food units makes sense on paper, neither business is stellar. Still, Sandoz' deal to buy Gerber Products had investors primed for another Swiss invasion.



## TRADE WITH JAPAN: WHY THE DOVES ARE FLYING HIGH AGAIN

To date, the closest thing to ideological conviction in President Clinton's desultory foreign policy has been a zealous resolve to get tough with Japan on trade. The Clintonites set out to shift the focus from Asian security concerns to one overriding goal: cracking Japan's closed markets. At the nuclear standoff with North Korea, a plummeting dollar, and unrelenting upheaval within Japan's ruling coalition have changed the game plan. Call it the Revenge of the Pin-striped Set. State Dept. diplomats have taken back control of Japan policy, sending Clinton's trade hawks into retreat and putting an all-too-familiar cast on U.S.-Japanese relations.

Where aggressive market-opening warriors such as U.S. Trade Representative Mickey Kantor once ruled, U.S. Ambassador to Japan Walter F. Mondale is ascendant. The former Vice-President favors balancing economics with strategic interests and, in trade negotiations, he has urged that tough rhetoric be replaced with conciliation.

This tactical retreat may pay off. The Administration's strident strategy produced only a stalemate, making Clinton realize that if he is to win anything from the Japanese, he should turn to a more traditional approach. And he needs to move fast. The dollar keeps sliding against the yen because of a chronic U.S. trade deficit with Japan and market skepticism that the trade talks will produce results (page 30).

Mondale started converting Clintonites this winter, but his success surfaced only in the past few weeks. Kantor was humiliated at a recent Cabinet meeting when National Security Adviser Anthony Lake—long a supporter of the hardball approach on trade—piped up that U.S. commercial concerns should have to yield for a while to the goal of securing Japanese cooperation in defusing the North Korean crisis. And U.S. negotiators in Tokyo have received blunt instructions

from National Economic Council Director Robert E. Rubin: No more threats of retaliation if the talks run into trouble again. "Mickey is finally starting to get the message that he can't keep up this yowling on trade and not expect an impact on interest rates and exchange rates," says a top Clinton adviser.

Negotiations based on the old hawkish approach were cut off on Feb. 11, only to be revived on May 23 after markets, fearing a trade war, sent the dollar plunging. That panicked both U.S. and Japanese officials. In retrospect, one senior Administration official concedes the Administration overplayed its hand: "We were too shrill. You don't reform an s.o.b. by repeatedly calling him one."

**MARKET BY MARKET.** For now, U.S. trade hawks have given up on slashing Japan's \$121 billion global trade surplus. Instead, they're focusing on deals to open markets sector by sector. Clinton hopes to wrap up pacts on medical technology, insurance, and telecommunications by early July. With little hope of progress on long-stalled talks covering autos and auto parts, which account for half of Tokyo's \$60 billion trade surplus with the U.S., new negotiations have been opened on financial services and protection of intellectual-property rights—where progress is more likely. Battling it out, market by market, at a pace the Japanese can live with seems to be the most fruitful course for the U.S.

Besides, this more measured approach is essential if Clinton hopes to take the high road on expanded trade when he attends the summit of Asian Pacific Economic Cooperation nations in Indonesia this fall. The President wants to lay out his vision for the global economy: a world headed toward free commerce, not trade fights between its two largest economies. That's why Clinton's trade warriors are starting to speak softly and carry lots of little sticks.

*By Douglas Harbrecht*



**AMBASSADOR MONDALE: TONING DOWN THE RHETORIC**

### CAPITAL WRAPUP

#### TRADE

President Clinton expects Congress to approve the General Agreement on Tariffs & Trade, but he's taking no chances. The White House has deployed 35 staffers from the Treasury, Commerce Dept., and U.S. Trade Representative's office to twist the arms of wavering lawmakers. Cabinet officers will write op-ed pieces and promote the pact at special events. And pro-NAFTA companies will be recruited, but not for a leading role. The Clintonites fear a repeat of the disorganized campaign for NAFTA that business spearheaded last year. This time, the White House is forming a more diverse and

politically savvy coalition, including the conservative Heritage Foundation, GOP Presidential aspirant Jack Kemp, and the liberal Consumers Union.

#### CONGRESS

Call him the Senate's quote machine. Minority Leader Bob Dole (R-Kan.) has been cited by newspapers 26,794 times since January, 1993, according to a study by the University of California's Richard McKenzie. Dole's rating was twice that of the next two quote-meisters combined: Majority Leader George J. Mitchell (D-Maine) and Edward M. Kennedy (D-Mass.). Harlan Mathews (D-Tenn.), with 128 mentions, wins the Silent Senator Award.

#### REGULATION

The Federal Communications Commission is caught in a behind-the-scenes battle over how to make the Info Highway more diverse. Women and African-Americans are fighting each other for best breaks when the FCC auctions off new wireless communications licenses this fall. Each group claims it deserves more preference because of past bias. Congress mandated preferences for both groups, and the FCC is likely to make peace by treating them the same when it unveils its rules on June 29. They could both get 20% to 30% discounts, low-cost loans, and small downpayment requirements.

ROBERT TRIPPETT/FA



## RUSSIA'S STATE SELL-OFF: 'IT'S SINK-OR-SWIM TIME'

Companies will have to jazz up performance and shake up management to lure foreign investors

**L**udmilla Shikulina, 28, has worked at Moscow's Red October Chocolate Factory for half her life. As a company veteran, she received 38 shares worth 1,000 rubles each when the 125-year-old candy factory was privatized in a voucher auction in 1992. The offering was part of a national voucher program that transferred 70% of Russia's state-run businesses into private hands. After two stock splits, Shikulina's stake has grown to 700 shares. But she isn't selling. "Their value will go up and up," she says, plucking imperfectly shaped chocolate pieces from the assembly line.

It won't take long to find out if she is right. On July 1, Russia's privatization program moves into a new and critical stage. That's when the government will begin to sell controlling stakes in two-thirds of the remaining state-owned companies through tenders aimed at professional investors. Many of the newly privatized companies themselves will raise money from foreign buyers through share offerings or private placements. Even Shikulina's company is jumping on the equity bandwagon: Red October will float 7.72 million new shares for \$5 per share.

**BLAMING YELTSIN.** The rush of equity issues, coupled with a tough new bankruptcy law and cuts in state subsidies, is likely to spark a dramatic restructuring of Russia's economy. It marks the beginning of a new capitalist discipline that is certain to stir up Russia's old ways more than ever. As companies try to jazz up their performance to attract investors, layoffs and management shake-ups will be inevitable. Says Drew Guff, manager of PaineWebber Inc.'s \$105 million Russia Partners Fund: "It's sink-or-swim time."

In more ways than one. The expected surge in layoffs from privatization and increased bankruptcies as subsidies are slashed will put pressure on the limping economy, which has seen industrial production fall 26% so far this year. That can only add to the growing problems of President Boris Yeltsin, who is blamed for high prices and rampant crime. Already, Yeltsin's opponents are prepared to take advantage of public



MOSCOW BOURSE: WITH MARKETS LARGELY UNREGULATED, INVESTMENT IS STILL RISKY

## PRIVATIZATION, RUSSIAN-STYLE

### FIRST PHASE

*Ends on June 30, after 18 months of trading vouchers for shares in state-owned companies. The results:*

- ▶ Assets of 12,000 state companies transferred to 40 million Russian citizens
- ▶ 650 mutual funds formed to acquire shares
- ▶ Door opened for foreign investors to buy controlling stakes in food, tobacco, and metals industries
- ▶ Shareholders start voting out some ineffective managers

### SECOND PHASE

*Starting July 1, blocks of shares in privatized and remaining state companies will be sold for cash. The goals:*

- ▶ Encourage foreign investors to buy shares directly in privatized or bankrupt enterprises
- ▶ Spark development of new-issues market
- ▶ Provide badly needed investment capital
- ▶ Eliminate state subsidies to privatized firms

DATA: BUSINESS WEEK

discontent if there are massive layoffs.

But if Russia's nascent capital markets can inspire the trust of foreign investors, they could be the engine the country needs to get its economy moving. And they could help lure back the millions of dollars Russians have stashed in Swiss banks. "Equity markets in Russia will grow very rapidly," says Charles Blitzer, an economist in the World Bank's Moscow office.

While the first round of privatization started 18 months ago, was primarily cashless transfer of ownership from the government to the Russian people, the time is different. Before, some 150 million Russians each received a free voucher that could be invested in an individual enterprise or an investment fund. Foreigners could buy only the few shares offered in voucher-privatization auctions through Russian intermediaries. Now, f



ners will be allowed to buy Russian equities directly—in fact, they will be encouraged to jump into the fray. “The State Property Committee wants to aggressively use these sales to attract foreign investors,” says James Dannis, a partner at Cleary, Gottlieb, Steen & Hamilton’s London office.

**NOT STOCKS.** There’s plenty for Westerners to choose from among the 12,000 privatized companies. Foreign portfolio investors already are active in the Russian secondary market, buying shares from voucher investment funds or workers. The Moscow office of CS First Boston has bought 2% to 5% stakes in five oil companies. “I estimate that foreigners are buying Russian stocks at the rate of \$100 million to \$300 million per month,” says Oleg Tsarkov, head of stock trading at Grant Financial Group, one of Russia’s most active investment funds. Like

Alfa Capital and First Voucher Fund, Russia’s two biggest voucher funds, Grant bought controlling stakes in Russian companies that it hopes to resell to foreign investors.

The risks, of course, are high. Up to now, Russia’s securities markets have been largely unregulated. Thousands of Russians placed their vouchers in unlicensed investment funds that collapsed when directors skipped town with the proceeds. Other funds promised sky-high dividends that never materialized. So Yeltsin is cracking down on unscrupulous brokers. Issuers of stock and bonds will now have to register with the government and provide quarterly balance sheets. But it will take several years before markets are well regulated.

What’s more, the market is so new that it’s highly regional and illiquid. Few of the newly privatized companies will

trade on Russia’s stock exchanges, which list mostly newly formed companies. There are also physical impediments to heavy-volume trading, since there aren’t any large clearinghouses. For now, foreign investors will have to buy through brokers and Western investment funds. But there are already some hot stocks: Rostelekom, Russia’s phone company, and Unified Energy System, the world’s largest power-generation company.

If the first six months of 1994 are any indication, Russia could soon become a popular emerging market. Bankers say more than \$600 million in portfolio investment has moved into Russia so far this year, and government officials predict that the figure will top \$4 billion by the end of the year. If any of these investors put their money in Red October, Shikulina will be sitting pretty.

*By Patricia Kranz in Moscow*

## THINGS ARE LOOKING UP—SO RUSSIA LOOKS FOR HANDOUTS

**A**fter ultranationalists and Communists scored stunning victories in Russia’s parliamentary elections last December, Western governments feared the worst—the death of economic reform, hyperinflation, political chaos.

So much for the apocalyptic forecasts. Six months later, Russia is surprising everyone. Its economy is making steady progress toward free-market reforms under a functioning government. Through a combination of high interest rates and tight budgets, Prime Minister Viktor Chernomyrdin has cooled the monthly inflation rate from 22% to 1%. Privatization of state enterprises continues apace.

Now, Russian authorities are counting on reaping Western financial rewards for their efforts so that the economy stays its course. One big payoff will be in the form of foreign investment, which is poised to grow from a trickle to a flood. Eugene K. Lawson, president of the U.S.-Russia Business Council, predicts that “\$69 billion in U.S. investment in oil and gas alone could start to flow” over the next eight years. A long-pending \$10 billion project led by USX’s Marathon Oil and McDermott International Inc. to tap oil and gas reserves off Sakhalin Island could be cinched during Chernomyrdin’s late June visit to the U.S.

Russia’s high marks are gratifying to Washington. After a series of foreign policy blunders, the Clinton Administration is eager to boast that its policy



CHERNOMYRDIN AND GORE: WASHINGTON IS PRESSURING THE IMF TO SPEED NEW LOANS

of unswerving support for Yeltsin—which drew sharp criticism last winter—has succeeded. “The President deserves credit for having faith in Russian reform,” says an Administration official.

To show their support, top Clintonites are looking for ways to increase global financial assistance to Russia. At U.S. urging, leaders at the Group

of Seven economic summit in Naples on July 8-10 will endorse an expansion of aid.

But that doesn’t mean the allies will just dole out more cash. One reason is that much of the \$43 billion offered last year has yet to be released. The International Monetary Fund estimates that Russia has received just \$23 billion so far. Fears that Russian reform may yet backslide, coupled with their own sluggish economies, have made Western and Japanese leaders unwilling to fork over new money. Clinton has asked for \$900 million for Russia in his fiscal 1995 budget, a far cry from the \$4 billion he ponied up last year. And lawmakers on Capitol Hill want to trim even that.

**DAUNTING TASK.** One way the Clintonites plan to make dollars stretch is to lean on the multilaterals. They are urging the IMF to speed negotiations on \$4 billion in new loans and a \$6 billion fund to help stabilize the ruble.

The Russians still face the daunting task of dismantling massive state enterprises, which will trigger large-scale unemployment. Yeltsin’s failure to rein in corruption also could erode support for market reforms. Clintonites concede that Russia has a long way to go. But given how bleak prospects for reform looked six months ago, they say, it’s better to reward Russia’s latest strides than to fret about troubles to come.

*By Amy Borrus in Washington, with Patricia Kranz in Moscow*



GERMANY

## DAIMLER'S NEW DRIVER WON'T BE MAKING SHARP TURNS

Likely new CEO Schrempp will pursue his predecessor's high-tech strategy

**T**he personalities of the two men are remarkably different. Edzard Reuter, the 66-year-old chief executive of Daimler Benz, is a knowledgeable collector of post-Modern art and a lifelong member of the Social Democratic Party. His 49-year-old heir apparent, Jürgen E. Schrempp, is a bon vivant with a taste for big cigars and fine wines who joined the company as an apprentice auto mechanic more than 30 years ago. But it may soon be up to Schrempp to deliver on Reuter's dream of turning Daimler into an integrated high-technology concern, a sort of Teutonic General Electric Co.

Barring an unlikely revolt by Daimler's board of supervisors, Schrempp will be named on June 26 to succeed Reuter as CEO of Germany's biggest manufacturing company. He'll work closely with Reuter for 11 months and then move into the top job at the \$61 billion auto and aerospace giant next May, when Reuter plans to retire. Schrempp has been the leading CEO candidate ever since Reuter appointed him CEO of Deutsche Aerospace (DASA) in 1989. His mission there was to weld a grab bag of outfits making engines, rockets, planes, and helicopters into a coherent company.

**LONG-TERM FOCUS.** That job was a small-scale version of what Reuter has been trying to do with all of Daimler—pool the technical knowhow of its autos to avionics units to create a high-tech powerhouse. Although he says the strategy is working, there's little evidence it will pay off any time soon. But Schrempp's nomination will be a clear signal that Daimler's biggest shareholder, Deutsche Bank, which has a 25% stake, is ready to stick with Reuter's strategy for now. The bank could change tack by backing Helmut

Werner, 57, CEO of Mercedes-Benz. But it would run into hefty opposition from the powerful IG Metall labor union, which has seats on both Daimler's and Mercedes' supervisory boards. The union, which considers Werner anti-labor, nearly vetoed him for the Mercedes job in 1992.

Werner would be a far more popular choice in financial markets. "Daimler needs a revolutionary," says Alan Coats, an analyst at Paribas Capital Markets in London. "And Werner is much more of a revolutionary." Right now, he has his hands full remaking Mercedes. He's expanding production capacity from



**SCHREMPP AND A MERCEDES PLANT: THE CARMAKER HAS CUT \$1.4 BILLION IN COSTS**



### THE CHALLENGES

- ▶ Complete Daimler's makeover into an integrated high-tech company
- ▶ Prune more management and move more production abroad to cut costs
- ▶ Restore Mercedes-Benz to its former role as Daimler's major cash cow
- ▶ Consolidate Deutsche Aerospace to stanch its losses

DATA BUSINESS WEEK

570,000 units a year now to 900,000 by 1998. And he's rolling out innovative new products. He has already launched a new C-Class midrange sedan and a new model of the top-of-the-line S-Class.

Restoring Mercedes to robust health is critical to the whole of Daimler strategy. The carmaker accounts for 70% of group sales and traditionally the bulk of its profits. Last year, Daimler racked up what Reuter admits were "dramatically rotten" results, posting a \$1.1 billion net loss. Mercedes had operating losses of \$790 million on sales of \$40 billion. Schrempp's DASA unit lost \$621 million on sales of \$11.6 billion.

**UNDERACHIEVER.** The outlook is improving for Mercedes. Werner brags that the auto maker has cut \$1.4 billion from its costs in the past two years. That's nearly half the \$3.1 billion Daimler claims to have pruned in costs throughout the group. Now that world auto markets are picking up, Mercedes—and Daimler—are profitable again. But there's still a way to go. Analysts estimate that Mercedes' operating margin could top 4% this year. But they say its classy name should generate margins closer to 7%.

Schrempp and Werner may have been rivals for the top job, but they have been extremely circumspect in public

about each other. In a recent interview with *Der Spiegel* magazine, Werner said he wouldn't regard Schrempp's nomination as a setback. Still, Werner set out his terms: "Such a large group [as Daimler] can only be sensibly led if individual companies have a very high degree of independence and responsibility."

The two men must work together if they are to restore Daimler's fortunes fully. Their biggest joint challenge will be keeping beating the cost-cutting drums even as bottom-line results start to improve. By the end

1995, Daimler aims to have chopped its global labor force to 320,000, a 20% drop from 400,000 in 1992, at the start of its restructuring. And Schrempp may just be up to the task. Says one French aerospace executive of Schrempp's efforts at DASA: "He was no iron hand in a velvet glove—he took off the glove." Such tough tactics may also be just what Daimler needs to score as a high-tech player.

By John Templeman in Bonn, with bureau reports



## ARE THE PALESTINIANS READY TO GET DOWN TO BUSINESS?

The boxes are piling up, the crates are being filled. It's moving time at the Tunis headquarters of the Palestine Liberation Organization. PLO Chairman Yassir Arafat has given orders to close the offices down by the end of June. Thirteen hundred miles away, in the oasis town of Jericho, the excitement is building as Palestinians count down to Arafat's return to his homeland after a 46-year absence.

But it's building of a different sort that will decide the success of the Palestinians' experiment in self-determination—and whether one of the globe's longest-running conflicts can be put finally to rest. Can the Palestinians set up institutions to channel millions of dollars in international aid? Can benefits flow quickly enough to the 1.3 million people who will now call the Palestine National Authority their home? Can Arafat nurture a market economy so private investment starts to pour in?

**DOUGHING UP.** On the surface, the answer to these questions is no. Although the U.S., Japan, and other countries have promised \$2.4 billion in project aid over the next five years, almost nothing has come through the pipeline. Donor countries are holding back for fear that Arafat and his PLO officials might siphon off funds for political ends. Meanwhile, the lack of funds has left thousands of Palestinian civil servants in Gaza and the West Bank without pay. At an emergency Paris meeting in mid-June, donors finally agreed to cough up \$42 million to help the PNA get on its feet. But it's slow in coming.

Nevertheless, things may not be as bleak as they seem. The dimensions of Palestinian government are taking form. PNA officials say finance and tax departments could be up and running within a month. That will allow funds to flow directly to the PNA administration, rather than to the PLO. By July, says Amir Huleileh, an official of the Palestinian Economic Coun-

cil for Development & Reconstruction, almost all of the PNA's \$381 million operating budget for 1994 should be available.

There are also signs that this year's \$450 million development budget, overseen by the World Bank, could be implemented soon. According to bank officials, only about 15% of these funds will go to the PNA; the rest is earmarked for specific projects, including badly needed housing, roads, and sewers. In mid-June, the U.S. Agency for International Development and Germany's aid agency both announced plans to

open offices in the West Bank to oversee aid flows, while the Bank of England is providing assistance for the fledgling Palestinian Monetary Authority. "The West has been cheap with the Palestinians until now," says Gil Feiler, head of Tel Aviv consulting firm Info-Prod Ltd. "Donors will become more flexible in the months to come."

Overseas Palestinians are also poised to flex their financial muscles. Amman-based Palestine Development & Investment Co. has collected well over \$100 million from well-heeled Palestinians for investments in the West Bank and Gaza. The group is hoping to build small satellite communities in the West Bank, complete with shops and communications, not unlike towns constructed by Israel for immigrating Jews. Pedico wants to raise \$1 billion, says Chairman Kamal Shaer.

Palestinian investors, just like Western donors, want to see probusiness signals from Arafat. "The PNA should have bright red signs in each office saying 'No Big Government,'" says Nidal Sukhtian, a prominent Amman-based Palestinian financier. "But I am afraid the government will be bigger than needed, and it will hurt economic development." Chairman Arafat should ponder that when he gets home.

*By John Rossant in Rome, with Neal Sandler in Jerusalem and Kirk Albrecht in Amman*



**ARAFAT: DONORS ARE WARY**

### GLOBAL WRAPUP

#### UG-OF-WAR

French politics are in turmoil, with a risk of greater polarization between left and right. Michel Rocard's June ouster as head of the Socialist Party—the result of the party's dismal showing in European parliamentary elections—probably dooms his shot at the French presidency next spring. He left now has no strong candidate except Jacques Delors, president of the European Commission. New party head Henri Emmanuelli thinks centism is killing the Socialists and aims to push them leftward.

The right also has its woes. After a

strong European showing, the far right, which opposes a tight European union and backs economic protectionism, is leaning on the ruling right coalition. That may help Gaullist leader Jacques Chirac, who is in a tug-of-war with the more centrist Prime Minister Edouard Balladur.

#### HELP NOT WANTED

The European Union is shutting its doors to job-seeking foreigners. The effect of record numbers of unemployed in Western Europe—some 18 million—led the 12-nation EU in late June to push for stringent new communitywide anti-immigration laws. The legislation, which will bar entry to any

non-EU citizen searching for work, goes into effect on Jan. 1, 1996.

#### POTSHOTS IN MEXICO

Manuel Camacho resigned as government envoy to the Chiapas rebels after they rejected a peace accord. The former presidential aspirant pledged to stay out of politics until December but couldn't resist a few potshots at his ruling Institutional Revolutionary Party's candidate, Ernesto Zedillo, accusing him of undermining future talks with the rebels. The government had hoped to settle Chiapas quickly, but the rebels remain a reminder of the poverty that sparked their revolt.



## BACKLASH FROM THE S&L SCANDAL

Legal setbacks have hurt FDIC and RTC efforts to recoup billions

**A**ttorneys for the Federal Deposit Insurance Corp. thought they couldn't have had a better case against John Henderson Jr., former chairman of two Texas savings and loans. In its 1991 lawsuit, the agency charged that Henderson, who ran the thrifts from 1984 to 1987, had squandered depositors' money on unsound loans, luxury cars, and two airplanes for his personal use. In March, a jury in a Texas federal court ordered Henderson to pay the feds \$7 million.

But the FDIC may not see a nickel of it. Why? The agency lost an argument over whether it filed its suit fast enough. The FDIC had claimed that because of Henderson's tight control over the thrifts, the government didn't know how serious the problems were—and couldn't have sued—until it took over the S&Ls in 1988. But the jury found that the clock on the two-year statute of limitations started ticking earlier—and that the FDIC filed suit four years too late.

**EASY START.** Such setbacks have become common for the FDIC and the Resolution Trust Corp. in their crusade against former thrift and bank executives, directors, attorneys, and accountants. As the government tries to recoup for taxpayers the billions lost in thrift and bank failures, "the noose is definitely tightening around our necks," says Jack D. Smith Jr., FDIC deputy general counsel.

The latest blows came on June 13 in two Supreme Court actions that will force the feds to abide by state laws on issues such as statutes of limitations. Defense lawyers are ecstatic: State laws often are tougher than their federal counterparts. "The [regulators] have always tried to say they are outside the traditional law," says Stephen E. McConico, an Austin (Tex.) lawyer who has represented directors in such suits. "The courts are saying no." Statute-of-limitations decisions alone could cripple 56 government cases involving as much as \$1.5 bil-

lion in potential damages, about half of all claims against professionals.

When their campaign began in 1987, government lawyers had it fairly easy. Their cases were high-profile and egregious. As of the first quarter of this year, the feds had recouped \$3.9 billion in damages at a cost of \$811 million.

Lately, though, state courts have been throwing out or paring down their cases when the alleged conduct isn't flagrant enough to justify hefty damages. In March, a California judge threw out a \$292,000 jury award against outside directors of a failed Southern California bank. The judge found the directors had tried hard to save it, including injecting \$2.8 million of their own money. "They never had a case," says Arthur E. Engel, a director who spent more than \$300,000 on legal fees. The FDIC plans to appeal.

Critics say the agencies have themselves to blame for this backlash. The RTC, for example, had tried to subpoena financial data to see if thrift executives were wealthy enough to pursue—without

stating why they suspected wrongdoing. In March, the federal appeals court in Washington ruled the RTC needs "at least an articulable suspicion" of misdeeds before it can get such subpoenas.

And last month, a Dallas court found the FDIC was liable for some of the \$5 million in damages suffered by real estate developer Burnett Plaza Associates, the landlord of failed First Republic Bank in Fort Worth. U.S. District Judge John

Kendall ruled that the FDIC acted in a "high-handed and cavalier manner in delaying its decision to break lease with Burnett, unfairly forcing him to shoulder the risk of plummeting commercial real estate market." The judge ordered the matter into mediation with the hope the parties will settle before his final ruling.

Given their recent track record in court, the FDIC and RTC are hoping Congress will step in. In April, at the agencies' urging, Senator Howard M.



ENGEL HAD \$300,000 IN LEGAL FEES

Metzenbaum (D-Ohio) introduced a bill reviving cases against bank insiders and outside advisers that had expired under statutes of limitations before the feds took the institutions over. Congressional sources say the high-court ruling may prod lawmakers into action, though the measure may get watered down.

The agencies also are hoping Congress will help them wrest money from reluctant insurers. Many director- and officer-insurance policies in the 1980 didn't cover damages in suits with the government. The RTC and FDIC had some initial success in overturning these exclusions, but recently their efforts have

failed. The agencies want lawmakers to ban such exclusion to help them collect on \$80 million in potential claims.

In their determination to nail the crooks, Congress has been supportive before, twice extending the statutes of limitations for cases involving gross negligence and fraud. Those moves, it seems, weren't enough. To enable the agencies to recoup billions more, Congress will have to go to the well again.

By Amy Barrett in Washington

### THE FEDS TAKE A BEATING

**FDIC VS. DAWSON** The Supreme Court let stand an October appeals court ruling that the FDIC could not sidestep state laws to pursue a case against directors and officers of a Texas bank.

**RTC VS. STROOCK & STROOCK & LAVAN** A Florida federal judge in May dismissed a \$180 million malpractice suit against the Stroock law firm. The court found that the RTC didn't prove damages from an illegal junk-bond deal.

**BURNETT PLAZA ASSOCIATES VS. FDIC** A Texas court found in May that as the real estate market fell, the FDIC and a bank unfairly delayed breaking a lease with a developer. The judge said the agency and bank owe the developer \$56 million. The matter is now in mediation.

DATA: COURT RECORDS



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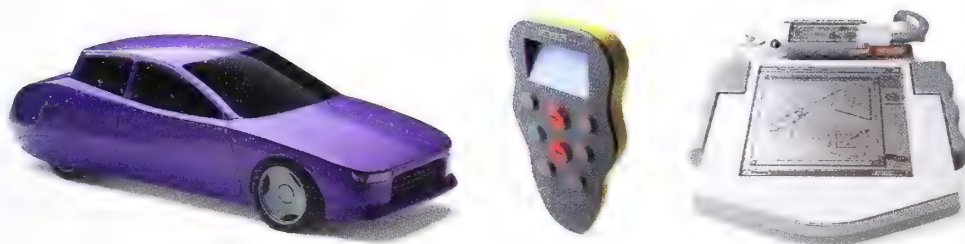
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## UNILEVER'S STRUGGLE FOR GROWTH

Under fierce pressure in Europe and the U.S., it's grabbing a bigger share in emerging markets

It was billed as the soap story of the century: By early 1994, Unilever, the Anglo-Dutch company that has made brighter washes its business for 106 years, was ready to launch a new detergent in a Europe-wide extravaganza. Company executives were eager to best archrival Procter & Gamble Co., which drubbed Unilever in a recent U.S. price war and was grabbing a big lead in Europe. With Unilever's stock price getting battered and profits slipping, this one had to be a hit. Or else.

But P&G was working to counter the new offensive. In February, one of Procter's researchers, Nabil Y. Sakkab, got his hands on a box of the new powder. He sifted the detergent through his fingers, noticed pinkish granules, and said: "I can't believe they did this." Sakkab rushed the soap into a lab, which revealed, as he suspected, the granules contained manganese. The substance can clean clothes whiter than white but can eventually tear holes in them. In May, P&G released lab tests and pictures of clothes allegedly eaten alive by the new detergent, called Persil Power in Britain and Omo Power elsewhere.

**BIG STRAIN.** Suddenly, the blockbuster started to look like a bust. Tests by consumer groups in late May confirmed P&G's findings that, even at low temperatures, the new detergent weakens fibers in as few as 15 washings. Incredibly, Unilever may have failed to put the product through sufficient testing. Unilever officials say they spent three years testing the new detergent in the lab and with consumers. Nonetheless, the company is changing the formula and the instructions for its use and withdrawing a lawsuit charging defamation against Procter & Gamble. Now, instead of sweeping rivals off the shelves, Unilever faces a slog to recoup \$400 million it invested.



PERRY AND TABAKSBLAT: CAN THEY MAKE THE GIANT NIMBLE?

This is just one of many wars the octopus-like Unilever is fighting around the world. With \$42 billion in sales, 1,000 brands, and 300,000 employees, Unilever is mired in battles over ice cream, soap, margarine, shampoo, and sauces. Sometimes the opponents are name brands like P&G's Ariel detergent in Europe or Tide in the U.S. Sometimes they are newcomers—like Snapple iced tea.

Whoever the rivals are, Unilever has to fight them off while dealing with a European recession, slowgrowing populations in its mainstay markets, and gigantic increases in advertising and promotion costs. It's a strain on management, a strain analysts say contributed to the soap-powder controversy. "The last year has been a bit of a nightmare for Unilever," says David P. Lang, a London analyst at Henderson Crosthwaite.

The problems come at a critical juncture. As profits in the developed markets stagnate, Unilever is shifting its weight to Asia, Latin America, and Central Europe. Unilever already has a decades-old presence in such places as India, where

the promise is great. But Unilever has also run out of experienced managers to handle it all. "Unilever is meeting its limits," admits Co-Chairman Morris Tabaksblat in Rotterdam. "It can be quite painful because there are opportunities out there."

The detergent war in Europe is the first real test of Tabaksblat and fellow Co-Chairman Sir Michael Perry. Because Unilever is the result of a 1930 merger between a Dutch margarine company and a British soap maker, it has maintained two equally powerful chairmen. In May, Tabaksblat started his tenure in Rotterdam. Perry has been running Unilever's London headquar-

ters since April last year. Together, they must make their twin-headed organization and its 300 operating divisions respond faster to newly aggressive rivals.

Perry and Tabaksblat have tremendous resources to work with. Unilever's cash flow is more than \$3 billion a year. It dominates global markets in such products as margarine and ice cream. In some emerging markets, Unilever is a titan. It has 90% of Chile's detergent market, for example. In the U.S., where its detergent business has sagged badly, executives have nonetheless produced big hits with global potential—Lever 2000 soap, for example, and Lipton bottled iced tea, sold in partnership with PepsiCo Inc.

The question is whether Unilever can capitalize on these strengths and turn itself into a nimble enough player for today's hypercompetitive world. The driv-





be faster and smarter collides with a culture that for decades stressed geographic decentralization—where country managers were kings. With such balkanized operations, Unilever's bid to keep rolling out the best products globally in the shortest time is at stake. Mistakes can be costly. "Losing a fight over market dominance isn't just a blow to the corporate ego, it means forgoing hundreds of millions of dollars in sales that may never be recovered," says Paribas Capital Markets analyst John H. Campbell.

**NEEDY.** The numbers also reflect a company in need of new growth. After restructuring charges and adjusting for currency shifts, pretax profit for the year ended December, 1993, fell 9%, to \$2.9 billion, on a 6% sales rise (chart). Next year's earnings should grow to \$3.5 billion—unless another writedown takes place, says S.G. Warburg & Co. analyst Mark Duffy. But margins are still under pressure.

The market is waiting to see if Unilever can regain its momentum. In the U.S., shares of Unilever PLC have slipped—from almost 73 in January to a recent 61. Major investors are wondering when the \$6 billion in restructuring costs will stop earnings. "They've been treading water for a couple of years," says Jay Freedman, a fund manager at Lincoln Capital Management Co. in Chicago.

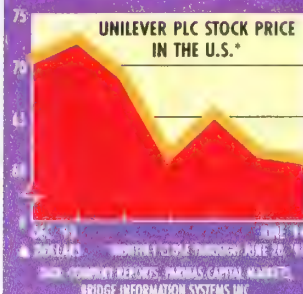
A big reason for the stock slip is investor concern over whether Unilever, along with other consumer-goods companies,

can coax shoppers into paying premium prices. In the past year, consumers have rejected Unilever's higher-priced teas in Britain, Ragu and Chicken Tonight meal sauces in the U.S., and margarine in Germany. In each case, "we were asking too much. We got greedy," says Tabaksblat.

Rivals are all waiting for a chance to stop Unilever. In ice cream, Unilever is No. 1—but Nestlé is snapping up properties, determined to contest the issue. In India and Brazil, Unilever wants to consolidate its hold, but P&G, Colgate-Palmolive, and Nestlé are resisting. In food sauces in the U.S., products from Newman's Own spaghetti sauce to Campbell Soup's Prego line have undermined Ragu's dominance. In hand soap in the U.S., it's a seesaw battle: Unilever has beaten out P&G with its Dove, Caress, and Lever 2000 brands, but the Cincinnati company is fighting back.

Perry and Tabaksblat seem to have a common vision for how Unilever must respond. The essence of their strategy is to keep stripping Unilever's broad array of products down to four categories: foods, personal products, detergents, and specialty chemicals. In foods, it's pasta sauces, tea drinks, margarine, and ice cream. In personal products, it's prestige

## INVESTORS ARE WORRIED



fragrances, cosmetics, and anti-aging skin creams. They're also want new efficiencies by building plants that serve entire continents, not just one country.

Perry, 60, and Tabaksblat, 56, have also hit upon a highly unusual solution to the age-old problem of balancing headquarters, brand managers, and country managers: Instead of ex-

panding the control of Rotterdam or London, they're delegating the job of developing products and marketing strategies for an entire region. In Southeast Asia, that means Thailand is the detergent expert, and the Philippines handles manufacturing. In Europe, the Paris office oversees shampoo, while the Frankfurt office does skin care. Thus one country develops new products and creates marketing campaigns for the whole region.

The co-chairmen monitor these new operating regions closely with a sophisticated electronic-mail system. They're getting tougher on weak performers, shutting down plants, laying off workers, and jettisoning products that don't fit the overall strategy. Among the changes: a \$750 million charge against 1993 earnings to close or consolidate 60 plants and lay off 7,500 workers.

The new, streamlined European deter-

## UNILEVER TARGETS THE GLOBE...

*The company is focusing on brands it can roll out around the world. But the sheer variety of products, combined with competitive pressure, makes for a formidable management challenge*

### FOOD AND BEVERAGES

1993 SALES.....\$22.2 BILLION

Includes Lipton tea and iced tea, Good Humor and Breyers ice cream in the U.S., Blue Band margarine in the Netherlands, Rama margarine in Japan, Wall's ice cream and Birds Eye frozen vegetables in Britain

### DETERGENTS AND SOAPS

1993 SALES.....\$10.1 BILLION

Includes Surf and Wisk detergent, Dove and Lever 2000 soap in the U.S., Omo and Persil detergent in Western Europe, Pollena detergent in Poland, Wheel soap in India, Jif cleanser in Japan

### PERSONAL PRODUCTS

1993 SALES.....\$6.2 BILLION

Includes Calvin Klein and Elizabeth Arden cosmetics in the U.S. and Europe, Mentadent toothpaste and Vaseline Intensive Care in the U.S., Timotei shampoo in Europe, Sunsilk shampoo in Japan, Maxam toothpaste in China

OTHERS.....\$3.5 BILLION





gent operation, which just handled the launches of Omo Power and Persil Power, was supposed to be a model. Niall FitzGerald, the worldwide detergent coordinator who is widely assumed to be Perry's heir, had just finished melding 18 separate country units that often marched to their own drummers into Lever Europe. That allows it to land new products on shelves in a matter of weeks, instead of years—the kind of speed every major marketer wants. But the new efficiency can amplify mistakes. In the past, a serious problem would have been corrected early, in part because rollouts weren't rapid enough to let a problem spread.

The U.S., where the company has 25% of total assets that deliver only 13% of profits, remains a major problem as well. First-quarter operating profit on \$2 billion in U.S. sales was a mere \$15 million, down 50% from a year ago. To cut costs, the U.S. detergent division, Lever Brothers Co., is cutting 25% of 4,200 jobs and is shutting a Los Angeles plant. Three different consulting companies have been called in to help with the reorganization at Lever, which lost money in the first quarter this year. A second plant, making pasta sauces, is closing in New York.

Lever Brothers' decline is due to a market-share war with P&G, which cut prices by as much as 20% on most of its products and hiked ad spending. To retain share, Lever also had to cut prices and boost its ad budget. But Lever's own marketing bloopers also hurt. Most dramatically, Lever's share of the liquid detergent market has plummeted from 35% to 27% in the past year, according to

## Will profits in emerging markets come on stream fast enough to compensate for the savage wars at home?

Information Resources Inc.

First, P&G beat it to the market with a concentrated liquid. Determined to offer a superefficient detergent, Lever doubled the concentration and halved the bottle size, making its products smaller than P&G's. The consumer just wasn't impressed. Says an executive at another detergent supplier: "Sooner or later, they seem to make whooper mistakes, which Procter doesn't."

While the company sorts out its headaches in the industrialized world, Unilever is spending much more time and money in emerging markets, where it now derives one-third of its profits. In 1992 alone, it launched 30 new products in Brazil, where sales last year came to \$2.2 billion. Not far behind is India, with \$1.3 billion in sales. By Western standards, consumption in these countries is still small, giving Unilever a chance for rapid growth. The strategy: Buy market share and end competition by acquiring existing companies. The question is whether profits in the developing world will come on stream fast enough to help compensate for the wars in Europe and the U.S.

Unilever is doing well in some of those

battles, like personal products. Unilever No. 3 in the world in this sector, trailing P&G and L'Oréal, but it's gaining ground fast, having entered the business in only 1989. Last year, personal-product sales jumped 10%, to \$6 billion, and operating profits were up 8%, to \$620 million.

In this case, the decentralized model works. The business is managed worldwide from New York, where the stars are Elizabeth Arden cosmetics and skin-care products, managed by CEO Robert Phillips, and Calvin Klein perfumes, run by Kimberly Delsing, one of a few women among Unilever's top 10 managers. They have been given almost free rein by personal-product coordinator and board member Anthony Burgmans. Perry boasts that Arden "a somewhat tired and neglected brand when we bought it" from Eli Lilly & Co. in 1989, is now one of Unilever's biggest success stories. Unilever also triumphed in turning Pond's, a U.S. brand, into a global workhorse, especially in Japan.

The successes in big developing markets and in fields such as personal products are examples of how Perry and Talsbaksblat want their company to work. With missteps like the latest detergent rollout still occurring, however, the idea of a perfectly organized, nimble giant still eludes them. Stretched thin and under pressure on so many fronts, Unilever may remain a company on the firing line.

*By Paula Dwyer in London, with Zachary Schiller in Cleveland, Laura Zima in New York, Shekhar Hattangadi in Bombay, and Lynne Curry in Beijing*

## 'ONLY A MATTER OF TIME BEFORE THE CLOTH TEARS'

**P**rocter & Gamble Co. says independent tests prove that Unilever's new manganese-based detergent damages clothing. Unilever retorts that P&G got the results by ordering up the severest test conditions. Not so, says P&G.

You'd expect a war of words between two archrivals. But what hurts Unilever are the pronouncements of several consumer groups. The independent Netherlands-based Consumer Organization says its own tests show cotton clothes lose much of their normal strength when washed in Unilever's new powder. "It's only a matter of time

before the cloth tears," says spokesman Matthew de Vaan. Unilever is reformulating its powder—but not, say spokespeople, because there's a problem. Only because the company wants to prevent consumers from being unduly alarmed.

**TOO HASTY?** Unilever says it tested its new Persil and Omo Power quite thoroughly. The British Textile Technology Group (BTG), an independent lab, "told us unequivocally there was no physical damage on garments," Unilever says. Some 60,000 consumers bought

the product before a Europe-wide rollout. In a separate, controlled test, 500 volunteers used the powder to wash bath towels and linen tea towels with positive results.

Yet Unilever may have been too hasty. The 60,000 consumers in test markets bought the new powder over three months. That may not have been enough time for deterioration to appear in garments, which critics say lose much of their strength after 15 to 20 washes in the new powder. And the controlled test largely involved towels made of linen, which P&G researchers claim is the toughest fabric around and would show little damage. In addition, the BTG says its favorable report was only preliminary and did not contain crucial fabric safety data. Unilever won't release the full report. In any case, it's clear that sometimes the rush to market can produce a stumble.

*By Paula Dwyer in London*



**P&G TEST RESULTS: MANGANESE WEAKENS FIBERS**





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# 'I CAME, I SAW, I CONQUERED'

Metallgesellschaft's Neukirchen is making waves—but getting results



"MOTIVATION IS NOT... BEING FRIENDLY TO EVERYBODY"

**D**on't ask Kajo Neukirchen whether he knows how to run a business. As Germany's foremost corporate doctor, he makes a living by snatching teetering companies from the brink of bankruptcy and preventing their collapse. Tall, rugged, and stern, Neukirchen marches in, haggles with banks, slashes costs, and axes jobs. But he's getting mighty annoyed at critics who say he's just an arrogant hatchet man who leaves behind the trickier job of rebuilding a company to long-term health. "It's much easier to run a company for 20 years and destroy it," he says with a scowl. "At least I don't destroy companies."

These days, Karl-Josef Neukirchen is giving both his critics and admirers plenty to talk about. At 52, he's immersed in the biggest cleanup job of his life. Last December, he took charge of Metall-

gesellschaft, the \$15.8 billion metals and engineering conglomerate that threatened to implode after risky oil-hedging strategies in the U.S. backfired. Within weeks, he engineered a \$2.06 billion bank bailout that prevented the biggest bankruptcy in German postwar history. And he embarked on a zealous cost-cutting scheme designed to boost MG's liquidity (table).

In the U.S., where turnaround specialists are often canonized, Neukirchen's blunt methods would likely draw raves. But in corporate Germany—where managers value consensus and layoffs were rare until recently—he has long been vilified as a job-killer who favors management by terror. It used to bother him that so many people hate him, he says, but not anymore. "You can't have the goal of being loved," he shrugs. "Motivation is not kissing and being friendly

to everybody. It's setting targets and achieving them."

Neukirchen's reputation has suffered somewhat from the fact that not all of his reclamation projects have fared as well after he moved on. Take Klöckner-Humboldt-Deutz, a \$2 billion tractor and engine company that almost collapsed in 1987. After becoming CEO, Neukirchen schmoozed the banks, got rid of noncore units, and fired five directors. Amid demonstrations and howls from the media, he slashed payroll from 26,000 employees to 15,000. By 1990, KHD turned profitable—barely—and Neukirchen left for another turnaround job. Last year, though, the Cologne-based tractor maker reverted to red ink.

**NIGHT WIRES.** Neukirchen argues that he can't be held responsible for the mistakes of others. His role is to stop the bleeding and prepare a platform for future success. "People forget what happened in the past, and they blame me," he gripes.

When he was hired at MG, all anyone cared about was keeping Germany's 14th-largest company from being sucked into a \$1.4 billion black hole of oil-trading losses. Former CEO Heinz Schimмельbusch, fresh off a \$2 billion acquisition spree, had entangled MG in a complex set of U.S. oil contracts and offsetting hedge positions that ended up exploding in 1993 when oil prices plummeted.

The new CEO immediately jetted to New York and appointed Karl M. von der Heyden—the well-respected former finance chief of RJR Nabisco Inc.—to help straighten out the U.S. oil nightmare. In the beginning, Neukirchen was wiring \$20 million a night to help the U.S. trading unit cover margin calls. Meantime back in Germany, Neukirchen pored over a set of balance sheets he calls "the worst I have ever seen." Racing against the clock—a German company must declare bankruptcy three weeks after liabilities exceed assets—he hammered out a rescue plan. With the help of giant Deutsche Bank, he persuaded creditors not to shut down the company on Jan. 15.

Those who have worked closely with

## NEUKIRCHEN'S ACTION PLAN

Since Metallgesellschaft's new boss took over on Dec. 17, he has...

- ☒ Persuaded banks to bless a \$2.06 billion bailout plan that includes issuing new shares, establishing a new line of credit, and converting a big chunk of existing bank debt to equity.
- ☒ Laid plans to streamline middle management and slash 7,500 of 43,000 jobs, saving \$333 million. He'll save an additional \$1.3 billion by cutting inventory, materials, and receivables.
- ☒ Put several noncore businesses, such as auto parts and a heating equipment unit, on the selling block—along with MG's headquarters—to raise an additional \$600 million in cash.
- ☒ Focused MG on the core businesses of metals trading, plant engineering, and specialty chemicals. Plans include creating more discrete profit centers to increase management accountability.

DATA: COMPANY REPORTS





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Neukirchen in the exhausting, exhilarating early days of a bailout deeply respect his energy and decisiveness. "He gave himself to us completely and listened carefully to our opinions," says Jürgen Dittert, personnel director at FAG Kugelfischer, the Bavarian ball-bearing maker that Neukirchen helped restructure before he joined MG.

But many say it wouldn't hurt him to mellow out a bit. "His management style is rude, to put it mildly," says one former colleague. That has resulted in a particularly prickly reception at MG, a proud company that has been demoralized and publicly humiliated. A handful of key managers have left, and many who remain feel alienated by Neukirchen's aloofness. "We would like to help, if he would only ask," says one. Many thought it unusually cocky when he quoted Julius Caesar—"I came, I saw, I conquered"—in the first in-house newsletter after the bank bailout.

Surprisingly, one group Neukirchen doesn't have to worry about is labor. While laid-off workers detest him, labor leaders respect their new boss for telling them bluntly and honestly what needs to be done. Says Rainer Lepper, head of the works council at MG: "I know that our destiny as a company is completely linked to the success or failure of this man. I trust him."

**NAGGING QUESTION.** Part of Neukirchen's appeal to the blue-collar set is that he is very much a self-made man. The son of a Bonn laborer, he worked first to raise money for college—a rarity in Germany—then went on to the University of Bonn, where he earned both an advanced degree in physics and a doctorate in economics. After graduate school, he spent eight years working for two German affiliates of Dutch giant Philips Electronics. He staged his first turnaround when he was 34, returning to profitability an ailing Philips-affiliated wire-cable business.

Neukirchen predicts that in five years, MG will employ only about 20,000 people, less than half the number he inherited, and sales will total \$8.5 billion, down from \$15.8 billion in 1993. "He has done exactly what needed to be done," says Johannes Reich, an analyst with M. M. Warburg Bank in Hamburg, though Reich doesn't predict the company will post operating profits until 1996.

Still, there's that nagging question: Does Neukirchen have the creativity and vision to run a healthy company? He jokes that if MG were no longer in trouble, he would "try to learn golf, because the work would be done." But then he bristles: "I run companies—I just do it quickly and with high risk." For MG's myriad creditors, that's been a good enough answer so far.

*By Karen Lowry Miller in Frankfurt*



IRELAND'S SHERIDAN AND ITALY'S BAGGIO: NOT MANY TICKETS WERE AS HOT AS THIS ONE

## THE WORLD CUP IS NOT RUNNING OVER

The games won't bring in the U.S. bonanza that was predicted

If you live on this planet, you can't escape the hype and hoopla surrounding the World Cup. And the fever that afflicts the rest of the world during soccer's championship season is beginning to burn across America. In Chicago on June 15, some 225,000 lined Michigan Avenue for a pageantry-filled parade two days before the elaborate opening-game ceremonies at Soldier Field. The next day, the U.S.-Switzerland game on ABC drew such a surprisingly strong audience that network executive heads snapped to attention.

Yet all but drowned out by the roar of the crowd is the rising chant of businesses crying foul. Take Hyatt Regency Dallas Managing Director James W. Howard. With only 1,000 rooms booked of the 10,000 ordered held by World Cup USA, Howard grumbles: "They did not live up to their fair share of the deal."

Overpriced tickets and uninspiring matchups—plus the apathy of Joe Six-pack still talking about the drama of the Stanley Cup, the slam dunk of the NBA finals, and the threat of a baseball strike—make it all but certain that the economic impact of the games on host cities will fall short of the \$4 billion projected by Cup organizers.

"World Cup, in the long run, is going to be good for business," calculates Richard DeCusati, the president of Boston-based Citywide Reservation Service Inc. "But it definitely has been blown out of proportion."

**TURBULENT.** It was a hard sell from the outset. To force-feed the game to an American public that has stubbornly refused to accept it, organizers reserve two-thirds of the 3.2 million tickets for U.S. sales—limiting the number of big-spending tourists coming to the States. Moreover, says New York-based sport marketing consultant Brandon Steiner, "They didn't get out and tie in with the fans who get emotional over this stuff. So you have upper-level managers taking other managers to watch a sport no one understands, in June, when everyone is going on vacation."

And while U.S. organizers get generally high marks for the staging of the 52-game tournament, their promotional efforts were partially undone by an unwieldy organizational structure and, sometimes politically turbulent international governing body. Intent on duplicating Peter Ueberroth's feat of turning a profit with the 1984 Olympic Games in Los Angeles, the U.S. organizing com-



ee often resorted to hardball tactics—imposing 20% surcharges on hotel rooms and tickets purchased by travel agents, for instance—that eventually made some packages too expensive to market. “A lot of [other] tour operators are very unhappy with them,” says Paul Rothenberg, owner of Kings Way Travel in San Francisco, Calif., who sold over 10,000 trips. U.S. organizers made turning a profit a key part of their 1987 bid to the Fédération Internationale de Football Association, the sport’s governing body. The Americans pledged to generate at least \$1 million in profits to promote soccer in the U.S. and to create a new FIFA-licensed proleague after the games. The problem was that FIFA controlled most of the key assets, especially the \$1 million the Cup generated from television and foreign-TV rights. In addition, FIFA got the \$220 million paid by such official sponsors as McDonald’s, Coca-Cola, and MasterCard.

It became a situation where we had to go out and create a business in a hurry,” says World Cup organizing committee Chairman Alan I. Rothenberg. U.S. organizers wanted all the revenues from ticket sales, and after a difficult negotiation with FIFA, they won the rights to share the merchandise royalties. FIFA also allowed them to sign up a lesser class of sponsors, such as Sprint Corp. and Sun Microsystems Inc., identified as marketing partners.

**WIDE CATCH.** But it didn’t take long for soccer politics to fuel the conflict inherent in the organizational structure of the World Cup ‘94 to come into being. Soccer great Pelé, who was a roving goodwill ambassador for FIFA and had been named to promote the U.S. tournament, had a falling out with FIFA President and fellow Brazilian João Havelange and was banned from official Cup events. The tiff was settled earlier this year, but Pelé, who appeared worldwide as MasterCard International Inc.’s official spokesman, has made few U.S. appearances. The delicate balance between award-winning sponsors and those granted by the U.S. committee also broke down: Both Sprint and MasterCard claimed they secured the rights to use the World Cup logo on their plastic cards. A U.S. court ruled earlier this year in favor of MasterCard.

Because U.S. organizers never had control over all the Cup sponsors, FIFA-licensed sponsors such as Coca-Cola Co. and MasterCard saved most of their ad

budgets for overseas promotions. Rothenberg was unable to get McDonald’s Corp., another FIFA sponsor, to join a Cup-organized soccer caravan through the country. The organizing committee was also miffed, say insiders, when the hamburger chain chose to promote the movie *The Flintstones* until just days before the opening game. McDonald’s, which denies any tiff with organizers, says it is spending millions more than its \$15 million sponsorship fee to promote the games worldwide. But, says Robert G. Solomon, president of Dakin Inc. in Woodland Hills, Calif., “what was missing all along was the kind of marketing you could have gotten from a giant like McDonald’s.” Dakin, which won the sole license to make plush-toy World Cup souvenirs, now expects to take in far

cedes that more than 100,000 tickets came back to the Cup organizers themselves. Some are being turned back by corporate sponsors, which were given as many as 10,000 apiece, because they couldn’t find takers. “We had to guesstimate demand six months ago,” says Jim Latham, World Cup project manager at General Motors Corp., which will not say how many tickets it turned back.

In May, Cup organizers dropped their 100,000 tickets on the market, cutting prices for many still in circulation. Tickets for games such as the Belgium-Morocco match in Orlando dipped \$15 below their face value, while others hovered near their printed price. “The whole deal was like trying to catch a minnow in a bucket with your bare hands,” says James P. Graham, co-chair of Dallas’ host committee.

**LOST RICHES.** What’s really slipping away seems to be soccer loot. Orlando officials now expect to get about half the \$104 million Cup organizers had predicted for them, while Dallas is looking at barely one quarter of the \$266 million projected. And that’s before subtraction of such expenses as added security and, in the case of Dallas, \$150,000 to house the homeless in apartments. With the lost revenues has been a loss of patience among some officials. “They nickled and dimed us to death,” says Dallas city councilman Chris Luna. “I’m thoroughly convinced that we will end up suing them when all this is over,” says Luna.

The larger question, however, is what will be the state of U.S. soccer when the games are over. Rothenberg’s dream of a pro soccer league

is moving ahead haltingly—seven cities have gathered pledges for 5,000 season tickets, less than the 10,000 league organizers initially requested but enough to win initial franchises. League play, with 12 teams and a contract from ESPN to televise some of the games, is scheduled to begin in April, 1995.

Things could brighten in a hurry, say organizers, if a superstar on the Pelé level emerges to rivet America’s attention. Better yet, a strong showing by the long-shot American team could galvanize the country, much as the U.S. hockey team did in the 1980 Winter Olympics. Sure, it could happen. Just don’t bet your NFL season tickets.

*By Ronald Grover in Los Angeles, with Carl Desens in New York and bureau reports*

## SHIN KICKS

### SPONSOR SNAGS

- ▶ MasterCard sues Sprint and organizing committee, saying it—not Sprint—has the rights to use the Cup logo on its plastic card. Court decides in favor of MasterCard.
- ▶ Organizers consider banning beer at stadiums to help avert violence but relent when Anheuser-Busch objects.

### PROMOTIONAL PROBLEMS

- ▶ Pelé, the legendary soccer star, clashes with soccer’s top official and makes few U.S. appearances.
- ▶ Major sponsors such as Coke and McDonald’s spend most of their money overseas; Disney and organizers butt heads.
- ▶ Bureaucratic snags delay shipping of banners for cities and approval of billboards.

### TICKET TROUBLE

- ▶ Red tape delays the shipping of thousands of high-priced ticket packages for weeks.
- ▶ Thousands of tickets, sold to soccer federations overseas and to U.S.-based sponsors, are returned for lack of interest and put back on the market.

DATA: BUSINESS WEEK

less than he did from the 1984 L.A. Olympics.

Rothenberg might have gotten a boost from marketing master Walt Disney Co., but the entertainment behemoth bowed out of the opening and closing ceremonies because of disagreements over the show. And selling the games was made even more difficult when Capital Cities/ABC Inc., which has the U.S. free-TV rights, decided against any telecasts in prime time.

Still, organizers maintain that all but 6 of the 52 games are sellouts. The numbers, however, are deceiving. Tickets for some games, such as Italy vs. Ireland, were white-hot. But many others, scooped up early, came flooding back on the market, with ticket brokers unable to peddle them. A Cup spokesman con-



# NOT 'SO MANY FISH IN THE SEA'

As world stocks diminish, stricter limits on fishing are inevitable

In April, Canadian officials charged into international waters off Newfoundland and impounded the Portuguese-owned trawler *Kristina Logos*. In its hold they found more than 50 tons of young cod—a violation of an international fishing agreement. Canada has banned catching cod and most other “groundfish” within its own 200-mile limit, hoping to save its once-rich Grand Banks fishing ground. The April seizure expanded that effort, and Brian Tobin, Canada’s Fisheries & Oceans Minister, promises more vigilance. “We have to put aside our lust for more and understand that [the fish] are disappearing,” says Tobin. “It would be irresponsible not to act.”

Today, fully one-third of the 200 fisheries worldwide monitored by the U.N.’s Food & Agriculture Organization (FAO) are depleted or being overfished. Some 40% of species the U.S. monitors are too, while an additional 42% have lower populations than needed to produce the best catches. “We need to rebuild depleted stocks to provide long-term, healthy economic conditions for fishing communities,” says Rolland A. Schmiten, director of the U.S. National Marine Fisheries Service (NMFS).

**HIGH STAKES.** This view is prompting action on two fronts. Short-term, six countries agreed last year to stop pollack fishing for two years in the “donut hole,” international waters in the Bering Sea. The International Commission for the Conservation of Atlantic Tunas has cut 1995 quotas for Atlantic tuna 50% from 1993 levels. Salmon fishing is banned this year off the Pacific Northwest. And in May, rules to stop overfishing off New England took effect.

Meantime, governments are working to lay the foundation for better long-term management. In August, delegates from 80 nations will meet at the U.N. in New York to forge an agreement for harvesting the high seas. This summer, Congress is scheduled to reauthorize the Magnuson Act, the law that regulates fishing in U.S. waters. Environmentalists, the Clinton Administration, and some in industry will press for

measures to strengthen conservation.

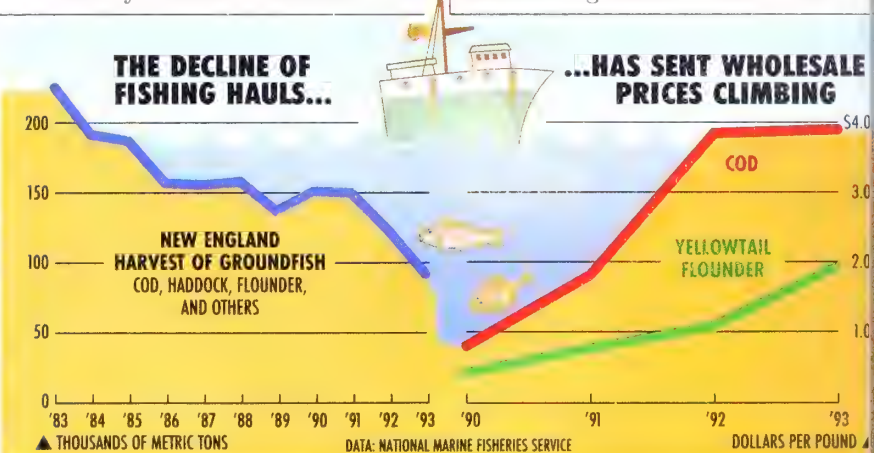
The stakes are high. Worldwide, the FAO estimates, overfishing and poor management lower the optimum revenues from fishing by at least \$15 billion a year. Since 1989, too many boats chasing too few fish have kept the world fleet operating at a loss, despite \$54 billion in annual subsidies. In jeopardy in the U.S. are a fishing and processing industry that added \$18.5 billion to the gross domestic product in 1992. Fish are also a key source of protein for nearly 20% of the world’s people, and essential for maintaining ocean ecosystems.

A variety of factors has created the

more effective nets have increased bycatch—the hauling of unintended species that are thrown back dead. In the Gulf of Mexico and the South Atlantic, shrimpers’ bycatch helps explain an 85% decline in snappers and groupers in those waters over the past 20 years.

The most serious problem may be the surplus of boats. Overcapitalization has created a “crazy race for fish,” says Joseph R. Blum, executive director of the American Factory Trawler Assn. Fueled by subsidies, the world fleet now totals 1.2 million boats; since 1975, the number of trawlers on the high seas has risen 30%. With more boats, the catch per vessel falls, as do profits—even though prices soar (charts). In Alaska, it now takes the 5,000 or so boats that fish for halibut just 36 hours to catch the limit vs. 120 days in the mid-1970s.

To make matters worse, quotas are hard to enforce, often set too high, and come too late. Although NMFS scientists started advising the New England Fisheries Management Council—one of eight set up under the Magnuson Act—to cut catches of groundfish such as cod and



current crisis. Since 1960, the total catch of ocean fish and shellfish has risen 66%, to 82 million metric tons in 1992. To reach that level, fleets fish for more species and catch younger fish, which cuts the number of adults of spawning age. Meanwhile, the explosion of people living near seacoasts has damaged critical fish habitats and spawning grounds in estuaries. Sophisticated technology, such as sonar, and the use of factory ships continue to make fishing more efficient. Larger,

haddock in the late 1970s, the council refused. Throughout the 1980s, it tried stopgap measures that Vaughn Anthony, NMFS chief scientific adviser in New England, calls “window dressing.” Sure enough, catches of groundfish plunged 39% from 1990 to 1993.

Even then, it took a lawsuit from environmentalists and pressure from Commerce officials to force the council to act. The May 1 plan includes a moratorium on boat licenses. It also cuts the number of allowed days at sea by as much as 50% over five years, with the goal of reducing the number of fish taken each year, now 70% of the population to 30%. To ease the pain for 20,000 fishers, some of whom are sure to go broke, the Commerce Dept. has committed \$10 million in aid, some of which will pay for

**In Alaska, 5,000 boats catch the season limit in halibut in just 36 hours**

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low-interest loans to help restructure debt. It also plans to mount a boat-buy-out program. Even so, "the plan just gets rid of overfishing, it doesn't rebuild stocks," says Anthony.

Other initiatives are aimed at that. In the Gulf Coast this summer, the shrimp industry is testing nets that may cut the bycatch of finfish 50%. More fisheries are experimenting with individual transferable quotas, or ITQs, to limit entry. ITQ systems allocate a share of an allowable catch to ITQ holders, who then can use or trade the rights. Next year, Alaska will try ITQs in its halibut and sable fisheries. But ITQs are controversial, in part because overfishing is still a danger. Without strong enforcement and limits on catches that are low enough to maintain fish populations, they don't work.

**DICER WATERS.** In the meantime, the Clinton Administration is pushing for changes in the Magnuson Act: They would require the Commerce Dept. to annually report overfished stocks, then give the management councils one year to design a plan to stop overfishing and rebuild stocks. If they didn't, Commerce could. The changes would also mandate efforts to reduce bycatch, preserve critical fish habitats, and allow fisheries managers to charge user fees to help finance better management. There will certainly be debate over these proposals, but Commerce Secretary Ronald H. Brown foresees a "positive climate for reauthorization."

Forging a U.N. agreement on high-seas fishing will be dicier. Fish from international waters are about 10% of the world catch. Although some agreements exist, they are violated with impunity, and some 20% of high-seas vessels are registered in countries that haven't signed. Canada, Chile, environmentalists, and some U.S. industry groups want a deal that includes quotas to conserve fishing stocks and "enforcement mechanisms so that no nations can escape them," says Tobin. So far, though, countries with large fleets—Taiwan, Japan—and the European Union have balked. Success, says Tobin, depends on whether the European Union and the U.S. back quotas and enforcement. By late June, the EU's opposition seemed to be softening, but the U.S. government hadn't tipped its hand.

In the meantime, waiting for action can be frustrating for scientists who track the fish. Says NMFS biologist Anthony: "I hope we've learned our lesson, so that we'll manage ocean ecosystems for future generations of fish and fishermen."

*By Emily Smith in New York, with William C. Symonds in Toronto*

## EBB TIDE IN THE GRAND BANKS

**W**hen explorer John Cabot discovered Newfoundland in 1497, the cod were so plentiful the crew caught them in baskets, a bounty that eventually spawned hundreds of fishing villages. But this summer, the cod served at Tanker Inn, a cafe in Arnold's Cove (pop. 1,400), was caught by Russian trawlers in the Barents Sea. There's a Canadian moratorium on cod fishing—and it's sinking the province's economy.

Decades of overharvesting plus a climatic shift that has cooled local waters have devastated Newfoundland's

nard, 44, of Southern Harbour, who started in his teens. His income is down 70% since 1991, to \$15,000, but "I won't leave the fishery without a fight," he says. "What else can I do?" Still, many of Leonard's comrades won't return to the sea. No one can "tell you when the cod are coming back," concedes Walter C. Carter, Newfoundland's Fisheries Minister. Even optimists don't expect a recovery until the turn of the century. And by then officials predict, fishing will support only half as many workers as now.

So far, the outports have been saved by government support payments, now 34% of income for the province's 580,000 residents. Canada is also phasing in a \$1.5 billion program to provide idled fish-industry workers \$275 a week for up to five years, plus training for other trades. Newfoundland Premier Clyde Wells also plans tax moratoriums for up to 10 years to lure companies that don't compete with existing businesses.

There's reason for hope. Although fishing has been the leading employer, it's less than 10% of local gross domestic product. This year, the economy may grow 1%, thanks to the \$4.5 billion Hibernia oil platform. Some 4,000 workers are building the rig, due for completion in 1997. Meanwhile, Memorial University of Newfoundland capabilities in marine and cold-weather research have helped spawn a high-tech industry with more than 1,000 employees. And local fish processors are finding new markets—handling Russian cod and preparing arctic salmon for Japan's sushi bars.

The problems for fishers are that few have high-tech skills and that most outports are too isolated to attract industry. "What do you do if your life, your family, and your community are all linked to the fishery, but there are no fish?" asks Tobin. One way or another, the island's traditional way of life is going to go the way of the fish.

*By William C. Symonds in Arnold's Cove, Nfld.*



**IDLED FISHING BOATS: UNEMPLOYMENT HAS PASSED 30%**

fishing grounds. Canadian cod catches plunged 90% from 1988 to 1993. And biologists say the number of mature northern cod has fallen to 1% of the level needed to sustain a healthy population. The fear is that "this once-rich fishing area may become a marine desert," says Brian Tobin, Canada's Fisheries Minister. Late last year, the government extended its 1992 ban on northern cod to some other species. And on May 31, it said it will arrest ships trolling for cod outside its waters—though arguably that's going beyond international law.

Meantime, the cod ban has shut down two-thirds of the fishing industry in Canada's most depressed province. Some 30,000 industry workers are idle, boosting unofficial joblessness to 30%-plus. In the outports, "there's nothing except fishing," notes Benedict Leo-

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# A SWEET SURPRISE FOR U.S. INDUSTRY

From semiconductors to steel to autos, growth is healthy—despite the Fed's rate hikes

**A**s a company that has logged \$1.2 billion in losses over the past three years and just began cutting 15,000 jobs, Delta Air Lines Inc. wouldn't seem to have much to cheer about. Wrong. Passenger traffic is jetting ahead on Delta's international and domestic routes—up 13% and 4.5% respectively in May. Better yet, Delta is looking at double-digit increases in bookings for the crucial summer travel season, even for its long-troubled North Atlantic service. "We expected bookings to be strong, but they're a lot better than we anticipated," says Robert W. Coggin, Delta's senior vice-president for marketing. "There's a lot of pent-up demand out there."

Delta is not alone. From semiconductors to steel, U.S. industry is finding business surprisingly strong, despite four interest-rate hikes by the Federal Reserve since February and market jitters over the resurgence of inflation. Big manufacturers such as Caterpillar Inc. have been running plants all-out, while capacity-pinched Chrysler Corp. is even turning away orders. "Economic growth will continue," says Henry B. Schacht, chief executive of Cummins Engine, which is experiencing its strongest demand in a decade.

**REFRAMED FORECASTS.** To be sure, some industries, such as commercial aircraft manufacturing, remain in a slump. But others have discovered that business will be mildly above plan, at least for a while. The U.S. auto industry is expected to produce up to 15.2 million cars and light trucks this year—500,000 more than forecast six months ago. And projections of chip industry growth this year have been raised a solid six points, to 20%.

And what of those interest-rate fears that have so roiled the U.S. bond market? "So far, they haven't affected our capital-investment plans," says Marvin Burkett, chief financial officer of Advanced Micro Devices Inc., which is spending \$1.4 billion on two chip factories in Texas and Japan. And while would-be homeowners may be wary, higher rates haven't choked off the nas-

cent recovery in commercial real estate. "Two months ago, [real estate] borrowers were hesitating, but then the whole market shifted, and people went right along with it," says Richard C. Clotfelter, president of CB Commercial, a big commercial real estate broker that has seen its sales jump more than 40% so far this year.

Indeed, a new BUSINESS WEEK/Louis Harris & Associates Executive poll shows that top managers are far from fearful of the economic future (page 68). Fully 90% of the 401 senior executives surveyed were optimistic about the outlook for the U.S. economy in the next year, up from 83% in a similar query last December. Likewise, only half of the executives polled expect long-term interest rates to increase over the next 12 months, compared with two-thirds of the respondents six months ago.

Such optimism is bolstered by some recent economic data. Industrial production posted its 12th consecutive monthly increase in May. The jobless rate fell 0.4%, to 6%, in May, while first-time claims for unemployment benefits recorded an unexpectedly large drop in early June. Manpower Inc.'s third-quarter survey of 15,000 companies found that 29% plan to hire workers this summer, the most bullish forecast since 1989. And

with strong activity in the South and West, housing starts logged a surprising 2.6% increase in May, to an annual rate of 1.51 million units.

Evidence of continuing strength is showing up in service businesses. Cintas Corp., which provides uniforms



**DOWNSIDE: AFTER CUTTING BACK, STEELMAKERS FACE A CAPACITY CRUNCH**



million American workers at companies such as Albertson's Supermarkets and Southwest Airlines Co., is seeing market expand. "In the last six months, for the first time in five years, customers are growing," says Chairman Richard T. Farmer.

The downside is that after slashing costs and shuttering factories, many companies are facing a capacity crunch. As they scramble to keep up with a surging industrial demand, U.S. manufacturers are importing unfinished goods from overseas. PaineWebber Inc. estimates that steel imports could reach 1 million tons this year, up from 19.5 million last year.

Auto capacity is tight, too. Driven by high consumer demand and low interest rates, Detroit racked up stronger-than-expected 20% sales growth in the first quarter. Sales have cooled a bit,

partly because of a shortage of models such as the Chevrolet Lumina and Ford Tempo, which are undergoing model changeovers. Still, Chrysler has 273,000 orders it can't fill for 1994-model cars and trucks. Overall, auto makers plan an 18.9% increase in third-quarter production, despite higher finance rates.

**RETAIL TIGHTROPE.** Bottlenecks have allowed some industries wide latitude in pricing. Building-materials giant USG Corp. has raised drywall prices in each of the past eight quarters—for a total increase of 33% in just two years. USG is running most of its plants three shifts a day, seven days a week. "For us the bellwether is consumer confidence, rather than interest rates," says Vice-President Matthew P. Gonring. "Confidence is still high, and we have not revised our forecasts downward."

The chance that such aggressive price rises might become widespread is one reason Fed Chairman Alan Greenspan and U.S. bond markets have been so edgy. But import competition and excess foreign capacity should keep most industries from raising prices too much. Steelmakers have announced a modest 3% price increase effective July 1.

Most industries that cater to consumers are wary of price hikes, though. Recent healthy airline traffic, for example, is due in part to a 5.4% price decline in May, the largest one-month drop in airfares in 25 years. "The competitive situation in the retail industry is such that it's very difficult to raise prices," says Sears, Roebuck & Co. CEO Edward A. Brennan. "In fact, we're seeing price deflation [on many goods]."

Indeed, retailers and others realize they are walking a tightrope at this stage of the recovery. Small interest-rate increases have relatively minor immediate impacts: A one-percentage-point rise in finance rates

boosts the monthly payment on the typical auto loan by only \$7, according to Salomon Brothers Inc. analyst Jack V. Kirnan. But rising rates can chip away at consumer confidence. And mortgage refinancings, which helped fuel last fall's spending binge, have slowed sharply. "With the refinancing game over, consumers are looking at a less optimistic future where they'll have to expand their debts," says First Chicago Chief Economist James E. Anabel.

Even if consumer demand fades later this year, many U.S. businesses can look to exports to pick up some of the slack. European Union economies are expected to expand by 1.6% this year, after a 0.3% contraction in 1993. And demand in Japan finally seems to be picking up. "Now the stagnant economies of the world seem to be recovering—soft recoveries, but recoveries nevertheless—which should help U.S. exports," figures Allen I. Sinai, chief economist at Lehman Brothers Global Economics.

Still, many worry that the Fed's action to head off inflation may end the party prematurely. Such moves could be particularly dangerous next year, when many economists fear that lagging real income growth and increased tax payments could force consumers to rein in spending. DRI/McGraw-Hill predicts that real gross domestic product growth could fall to a slim 1.9% in 1995. "What keeps us out of recession is that the Fed hasn't tightened too much," says DRI economist David A. Wyss. "My worry is that if the economy strengthens a bit more and the Fed tightens too much, we could get a recession toward the end of next year." Just as bad, the weakening dollar could force the Fed to raise rates sooner than warranted by the domestic economy.

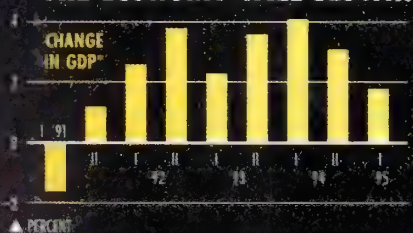
**LESS TORRID.** For now, wholesale and retail sales and other data suggest that higher rates are slowing the economy only slightly. Sinai predicts that growth in GDP will average 3.5% for 1994. That's well below the torrid 7% GDP growth of late 1993—but still respectable.

And more sustainable. "If you have a stable economy in which consumer psychology is good and people feel they're going to keep their jobs, they buy homes," says Leonard Miller, chairman of Lennar Corp., Florida's largest builder. "I see it as a good market for homebuilders—not for record starts, but for sustainable growth."

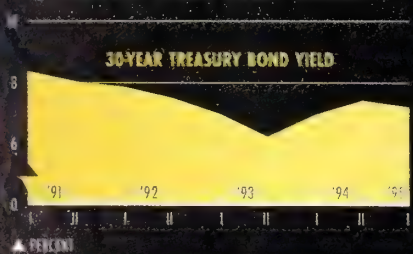
For many U.S. industries already wowed by the economy's vigor, a sustained expansion would be the most welcome surprise of all.

*By James E. Ellis in Chicago, with Christopher Farrell and Suzanne Woolley in New York, and bureau reports*

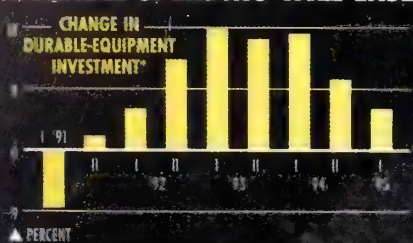
## THE ECONOMY WILL SLOW...



## ...RATES WILL STAY HIGH...



## ...DURABLE SPENDING WILL EASE...



## ...AND EXPORTS WILL PICK UP



AT ANNUAL RATES OF CHANGE OVER PREVIOUS HALF, ADJUSTED FOR INFLATION. ALL '94 AND '95 FIGURES ARE ESTIMATES. DATA: DRI/McGRAW-HILL INC.



### GREATER EXPECTATIONS

First, some questions about the economy.

#### THE ECONOMY: GUARDED OPTIMISM

|                                                                                                                                                                                                    | 6/94 | 12/93 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| Overall, how would you characterize your outlook for the U.S. economy in the next 12 months—would you say you are very optimistic, somewhat optimistic, somewhat pessimistic, or very pessimistic? |      |       |
| Very optimistic                                                                                                                                                                                    | 8%   | 3%    |
| Somewhat optimistic                                                                                                                                                                                | 82%  | 80%   |
| Somewhat pessimistic                                                                                                                                                                               | 9%   | 16%   |
| Very pessimistic                                                                                                                                                                                   | 1%   | 1%    |
| Not sure                                                                                                                                                                                           | 0%   | 0%    |

#### GDP: GROWING UP

|                                                                                                                                                                | 6/94 | 12/93 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| Compared with the last 12 months, do you think the rate of growth of the gross domestic product will go up, go down, or stay the same over the next 12 months? |      |       |
| Go up                                                                                                                                                          | 44%  | 25%   |
| Go down                                                                                                                                                        | 18%  | 9%    |
| Stay the same                                                                                                                                                  | 38%  | 65%   |
| Not sure                                                                                                                                                       | 0%   | 1%    |

#### INFLATION: NOSING HIGHER

|                                                                                                                                                        | 6/94 | 12/93 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| Compared with the last 12 months, do you think the rate of inflation, based on the CPI, will go up, go down, or stay the same over the next 12 months? |      |       |
| Go up                                                                                                                                                  | 50%  | 40%   |
| Go down                                                                                                                                                | 3%   | 5%    |
| Stay the same                                                                                                                                          | 47%  | 55%   |
| Not sure                                                                                                                                               | 0%   | 0%    |

#### TREASURY RATES: STILL RISING

|                                                                                                                                            | 6/94 | 12/93 |
|--------------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| Compared with where it is right now, do you think the 30-year Treasury rate will go up, go down, or stay the same over the next 12 months? |      |       |
| Go up                                                                                                                                      | 52%  | 67%   |
| Go down                                                                                                                                    | 18%  | 5%    |
| Stay the same                                                                                                                              | 26%  | 27%   |
| Not sure                                                                                                                                   | 4%   | 1%    |

#### JOBLESSNESS: SLIGHT IMPROVEMENT

|                                                                                                                                     | 6/94 | 12/93 |
|-------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| Compared with the last 12 months, do you think the unemployment rate will go up, go down, or stay the same over the next 12 months? |      |       |
| Go up                                                                                                                               | 13%  | 21%   |
| Go down                                                                                                                             | 43%  | 34%   |
| Stay the same                                                                                                                       | 44%  | 44%   |
| Not sure                                                                                                                            | 0%   | 1%    |

#### YOUR COMPANY

And now some questions about your expectations for your company over the next 12 months. Please give your best estimate.

Do you think each of the following will increase or decrease between now and June, 1995?

|                                                 | Increase | Decrease | Same | Not sure |
|-------------------------------------------------|----------|----------|------|----------|
| 6/94                                            |          |          |      |          |
| Sales                                           | 91%      | 5%       | 3%   | 1%       |
| Full-time employees                             | 47%      | 27%      | 25%  | 1%       |
| Investment in plant and equipment               | 69%      | 10%      | 17%  | 4%       |
| Typical prices of standard products or services | 58%      | 13%      | 28%  | 1%       |
| Exports                                         | 57%      | 4%       | 8%   | 31%      |
| Wages and salary rates                          | 85%      | 2%       | 13%  | 0%       |
| Health-care costs per employee                  | 70%      | 14%      | 15%  | 1%       |
| Investment in research & development            | 54%      | 12%      | 26%  | 8%       |

#### PROFITS, PROFITS, EVERYWHERE...

|                                                 | 6/94 |
|-------------------------------------------------|------|
| Did your company make a profit in 1993, or not? |      |
| Yes                                             | 94%  |
| No                                              | 6%   |
| Not sure                                        | 0%   |

#### ...AND MORE TO COME

|                                                                                                   | 6/94 |
|---------------------------------------------------------------------------------------------------|------|
| [If yes,] do you think your profits will increase or decrease in 1994 compared with 1993 profits? |      |
| Increase                                                                                          | 83%  |
| Decrease                                                                                          | 9%   |
| Same                                                                                              | 5%   |
| Not Sure                                                                                          | 3%   |

#### HEALTH-CARE REFORM: THUMBS DOWN

If, as a result of health-care reform, all employers except the smallest are required to provide health insurance for their full-time employees, would that:

|                                                                 | Would | Would not | No change | Not sure |
|-----------------------------------------------------------------|-------|-----------|-----------|----------|
| 6/94                                                            |       |           |           |          |
| Be better for your company than the system we have now, or not? | 13%   | 69%       | 11%       | 7%       |
| Help your company control its health-care costs, or not?        | 14%   | 73%       | 5%        | 8%       |
| Discourage your company from hiring new employees, or not?      | 30%   | 62%       | 3%        | 5%       |
| Act as a net drag on the U.S. economy, or not?                  | 79%   | 16%       | 0%        | 5%       |

#### FOREIGN SALES: EVEN BETTER

|                                                                                                                                                           | 6/94 | 12/93 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| Over the next 12 months, do you think that your foreign sales will be a higher or lower percentage of your total sales, compared with the past 12 months? |      |       |
| Higher                                                                                                                                                    | 55%  | 49%   |
| Lower                                                                                                                                                     | 8%   | 7%    |
| Same                                                                                                                                                      | 10%  | 13%   |
| No overseas sales                                                                                                                                         | 26%  | 28%   |
| Not sure                                                                                                                                                  | 1%   | 3%    |

#### GREENSPAN'S GRADE: B+

|                                                                                                                         | 6/94 |
|-------------------------------------------------------------------------------------------------------------------------|------|
| How would you rate the job Alan Greenspan and the Federal Reserve are doing—excellent, pretty good, only fair, or poor? |      |
| Excellent                                                                                                               | 16%  |
| Pretty good                                                                                                             | 58%  |
| Only fair                                                                                                               | 24%  |
| Poor                                                                                                                    | 2%   |
| Not sure                                                                                                                | 0%   |

#### FED POLICY: OVERWHELMING SUPPORT

|                                                                                                                                                                                                                                                | 6/94 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| As you might know, since the first of the year the Federal Reserve Board has acted to raise interest rates four times. Do you think the Federal Reserve's interest-rate policy has been too aggressive, not aggressive enough, or about right? |      |
| Too aggressive                                                                                                                                                                                                                                 | 31%  |
| Not aggressive enough                                                                                                                                                                                                                          | 4%   |
| About right                                                                                                                                                                                                                                    | 65%  |
| Not sure                                                                                                                                                                                                                                       | 0%   |

Edited by Mark N. Vamos and Michele Galen

Survey of 401 senior executives drawn from the BUSINESS WEEK 1000. Interviews were conducted June 1-10, 1994, for BUSINESS WEEK by Louis Harris & Associates Inc. Prior poll was of 402 senior executives of the BUSINESS WEEK 1000, conducted on Dec. 10-20, 1993.

1

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2

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3

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4

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5

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6

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7

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## OGILVY'S BIG BET ON BIG BLUE

Will it make up for lost clients?

**C**harlotte Beers was—to put it mildly—in a bind. Several months ago, David Ogilvy, the legendary founder of Ogilvy & Mather Worldwide Inc., sent the ad agency's chairman a memo suggesting she hire a worldwide creative director for the agency. Ogilvy—who just turned 83, doesn't fly, and lives in a 12th century French chateau—proposed himself for the job.

Beers, the first head of Ogilvy to come from outside the agency's ranks, knew he wasn't a serious candidate. But she has tried to give him a role in the agency. Recently, for example, she scheduled a board meeting at his castle and gave the former chairman a chance to address the senior executives. In this case, however, Ogilvy says she ignored his proposal. Ogilvy, who adds that he is a fan of Beers, now laughs off the whole episode: "I'm rather relieved she never accepted the suggestion."

It's clear David Ogilvy bears no ill will toward Beers. But two years into her job, the 58-year-old Beers is still struggling to put her stamp on a shop steeped in the legacy of its founder and his successors. "I get letters from five ex-CEOs," says Beers ruefully, "At times, it makes it very difficult to steer the course because I have a lot of sophisticated second-guessing."

**"KIND OF SPOOKY."** The second-guessing isn't likely to end soon. On May 24, Ogilvy landed the biggest new assignment in advertising history: the worldwide account of IBM, with billings of \$400 million to \$500 million. But almost immediately, Ogilvy lost its other high-tech clients: It resigned both Compaq Computer Corp.'s \$40 million account in Europe and Microsoft Corp.'s \$70 million worldwide account. Its direct-marketing arm lost Hewlett-Packard Co. and Intel Corp. Most damaging, AT&T pulled \$100 million in billings, primarily in direct marketing (table, page 73).

The IBM victory may also be less than it seems. One Big Blue insider says the company has sharply curtailed its 1994 marketing budgets in the U.S. and over-



■ *For Chairman Charlotte Beers, the new account has helped silence critics who say she's out of her depth. But can her focus on "brand stewardship" see IBM through its wrenching self-transformation?*

seas. As a result, he says, IBM's worldwide billings are closer to \$200 million. Even if IBM were to pay Ogilvy a historic 15% commission on billings—almost unheard of these days—that would generate revenues of only \$30 million. By contrast, the agency pulled in revenues of \$38 million on the AT&T, Compaq, and Microsoft accounts, according to one insider. What's more, IBM is undergoing the most wrenching restructuring in its history. "It's kind of spooky," says a top Ogilvy executive.

Beers won't disclose what IBM is paying Ogilvy. But agency insiders insist the compensation will more than offset lost revenue. And anyway, says Beers, IBM's billings are bound to grow: "I'm betting personally on [Chairman] Lou Gerstner's vision for this company," she says. Indeed, few rivals on Madison Avenue fault Beers for gambling: "If you

have a great deal of confidence that you can pull it off, you'd be crazy not to consider it," says John Doig, a former Ogilvy executive.

For Beers, who became the highest-ranking woman in advertising when she joined Ogilvy in April, 1992, the IBM win is also a way to silence critics who say she has produced more press than profits. Before IBM, Ogilvy had scored few new business victories under Beers's leadership. It lost one big account, Hardee's Food Systems Inc. Several top creative and account executives departed. And rivals say Beers failed to revive the agency's lackluster creative image.

True, Beers did lure back some blue-chip clients that had left: American Express, Shell, and Pond's. Ogilvy says that—plus increased spending by its multinational clients—boosted the agency's worldwide revenue by 5.3% in 1993.

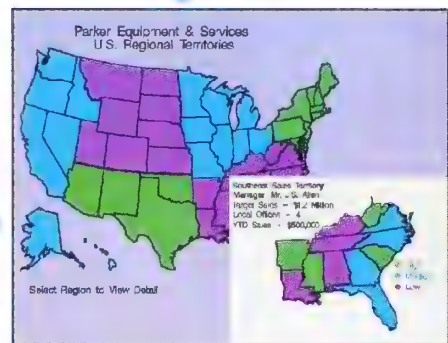


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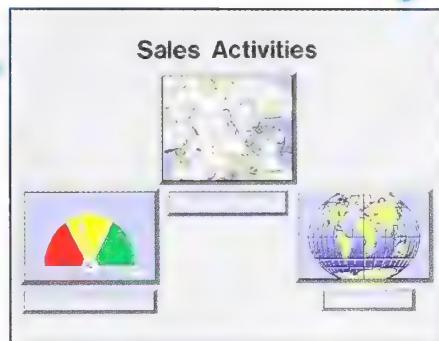


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# Marketing

(Ogilvy's British parent, WPP Group PLC, won't disclose the unit's revenue or profit figures). But *Advertising Age* magazine estimates that Ogilvy's revenue dropped 2%, to \$740 million, on billings of \$5.8 billion.

Beers says she could have boosted revenue further but decided early on not to chase new business because she wanted to shore up existing relationships. That certainly helped with AmEx. Yet Ogilvy has continued to have troubles with other key clients. Compaq, for example, fired the agency from its U.S. business in late 1991, and relations between the two grew increasingly sour. A year ago, Beers says, the company canceled a meeting with her after she had flown to its Houston offices. Compaq declines comment.

AT&T is another sore point: Agency insiders say they didn't expect the company to react so negatively to the IBM announcement. In a bid to salvage the ac-

count, Ogilvy even offered to set up a separate subsidiary within WPP to handle AT&T. But in the end, the company decided IBM was an insurmountable conflict. "This wasn't done out of pique," says Dick Martin, vice-president for corporate advertising at AT&T.

Still, Martin doesn't deny that AT&T had been growing steadily less enchanted with Ogilvy. In the last several months, Ogilvy lost bids for both its consumer long-distance account and a new direct-marketing assignment. Well aware of their fraying ties to AT&T and Compaq, Ogilvy executives felt pursuing IBM was a risk worth taking. "You have to stop and ask: 'Is this a growing, long-term relationship?'" says Rochelle Lazarus, who runs Ogilvy North America and was a key player in the agency's supersecret talks with IBM.

Much of Ogilvy's success with IBM, and with its other clients, will hinge on Beers's strategy for the agency, which she calls

"brand stewardship." For 18 months Beers has pushed the concept tirelessly in speeches to clients. Stripped of its somewhat pretentious vocabulary, brand stewardship basically says an agency must determine the "character" of a brand before it can effectively promote it. To do that, it must figure out what role the brand plays in the consumer's life and self-image.

Some former Ogilvy executives deride brand stewardship as patently obvious. But after some resistance, Beers says 80% of Ogilvy's multinational clients now use it to develop their advertising. Kraft General Foods Inc. and AmEx are particularly enthusiastic adherents. Beers has even put the strategy on tape, and one IBM executive told Beers he jogs with Walkman playing it.

**GLOBAL BRANDPRINT.** In IBM's case brand stewardship will mean collecting reams of data from marketing executives at the company. Beers says the process has already begun. She hopes to develop a so-called "brandprint" for IBM in the next several months. Ogilvy may roll out its first commercials for the company by September, although Beers says it will take longer to develop a global image campaign.

■ *Ogilvy didn't expect AT&T's reaction to the IBM announcement. But pulling the account "wasn't done out of pique," says AT&T's Dick Martin*

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s. The agency says  
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ng staffers who  
ed on Compaq, Mi-  
t, and AT&T. Beers  
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ccount's top manag-  
et. But executives  
to the agency say  
d D. McGee, who  
Ogilvy's Los An-  
office, will super-  
che account, while  
n Putter, chairman  
South Africa office,  
already works for  
will be creative  
or.

ilvy's far-flung out-  
are one of its great strengths. But  
nt and former executives question  
well Ogilvy will be able to coordi-  
those offices in devising a global  
aign for IBM. For one thing, sever-  
Ogilvy's veteran worldwide account

managers have departed—most recently,  
John Blaney, who managed Unilever. G.  
Kelly O'Dea, president of worldwide  
client service, says the exits merely re-  
flect a changing of the guard.

Then there's Beers herself: Before

of his qualities." As Beers takes on the  
challenge of her career with IBM, she'd  
better hope that Ogilvy's legendary luck  
is one of them.

*By Mark Landler and Jonathan Berry  
in New York*

## WAS IT WORTH IT?

The accounts Ogilvy & Mather lost to get IBM were probably already at risk. But it will be a challenge to keep IBM, too.

| LOST                |                           |                                                                                                                                                                                                                         |
|---------------------|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Billings            | Client                    | The inside line                                                                                                                                                                                                         |
| \$100 million       | <b>AT&amp;T</b>           | Ogilvy's star was fading at AT&T before IBM. The phone giant had passed over the agency when it moved its long-distance service account to FCB/Leber Katz.                                                              |
| \$40 million        | <b>COMPAQ</b><br>(Europe) | Compaq pulled its domestic account from Ogilvy 2½ years ago and gave it to Ammirati & Puris.                                                                                                                            |
| \$70 million        | <b>MICROSOFT</b>          | The software maker had begun a review for a second agency.                                                                                                                                                              |
| WON                 |                           |                                                                                                                                                                                                                         |
| \$400-\$500 million | <b>IBM</b>                | Ogilvy's international network is reputed to be the jewel that lured Big Blue. The biggest question mark may be the client: Will IBM—after years of indecision and turmoil—be able to decide what its brand stands for? |

DATA: BUSINESS WEEK

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## AFFIRMATIVE, YES —BUT IS IT FAIR?

Efforts to get minorities into the muni-bond business may be backfiring



**A**t first glance, it seems an unlikely partnership. To underwrite a \$409 million water-and-sewer bond issue for Florida's Dade County last December, Merrill Lynch, the nation's largest brokerage, with \$1.1 billion in surplus capital and 36,500 employees, agreed to share lead underwriting duties and fees with AIBC Investment Services Corp., which at the time had six employees and \$65,000 in capital. Although AIBC didn't sell a single bond, it earned a sweet \$350,000 for its role in the deal.

How did AIBC pull off such a coup? The main reason: AIBC is 52% owned by Wilfredo Gort, a Hispanic and a Miami City Commissioner. Such is the way

business often gets done as more and more cities and states adopt affirmative-action programs in awarding municipal-bond underwriting business.

For tiny securities firms like AIBC, minority requirements work wonders on the bottom line. Both Dade County Finance Director Edward Marquez and Merrill say AIBC worked hard on the deal at every stage, and AIBC has since moved to increase its capital and staffing. But in Miami, its work did not consist of selling bonds, the traditional duty of co-managers. Rather, says AIBC Senior Vice-President William R. Burdette, AIBC coordinated the transaction with the nine other participating minority firms. And

it played another role, he says, referring to Miami's effort to spread muni-bond work among minority-owned firms: winning the deal in the first place. "I helped put Merrill at the top of the list" of bids, says Burdette.

To critics, arrangements such as the Florida deal are politicizing the securities-underwriting business and undermining the market's efficiency. Over the past decade, affirmative-action programs have helped establish a healthy cadre of more than two dozen minority- and woman-owned securities firms able to compete with the major Wall Street firms that had a longstanding lock on public finance. With staffs of several dozen and capital bases of \$1 million or more, they possess the expertise to play important roles in bond-underwriting syndicates.

**NEW BREED.** Yet more recently, the growing number of requirements for minority participation in bond deals has attracted a new breed of small firms. Many of them are independent and growth-minded. But others appear to be little more than thinly capitalized shells set up by well-connected individuals,

fronts set up by bigger firms. These firms are winning spots in underwriting syndicates mainly because lead underwriters are required to include minority-owned firms. Other new firms have the expertise and capital to operate independently—but even these firms also often partly owned by major firms. Major firms often use their links to minority firms to secure underwriting business.

The small firms are taking significant business away from established minority firms and threatening their ability to generate the capital they need to participate in bigger deals and expand into new financial services. And the pro-

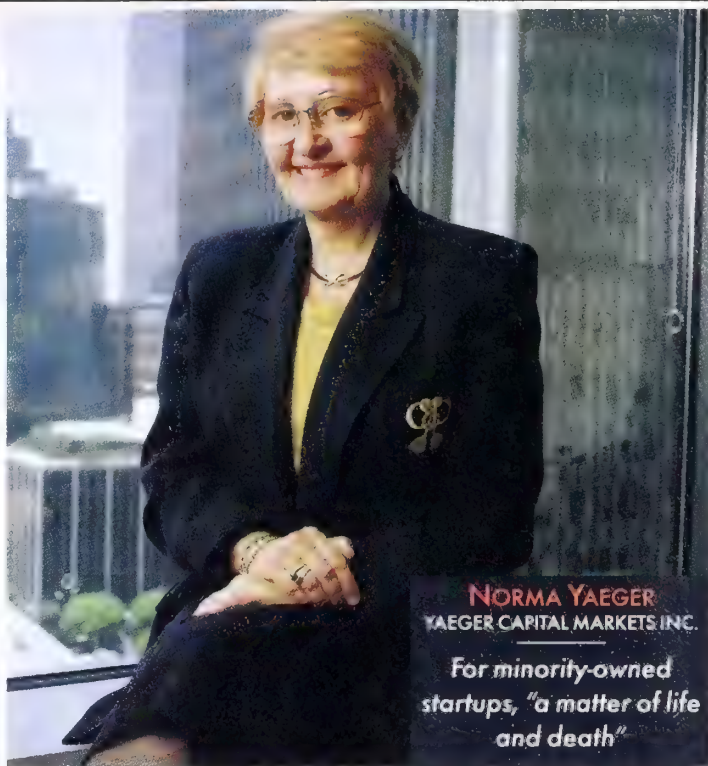


s getting worse. While  
and local muni deals  
the main locus of affir-  
ve-action programs,  
are also being adopted  
ederal agencies such as  
Resolution Trust Corp.  
n other areas of gov-  
ent finance.

established companies  
ion whether a well-  
ing social policy is in  
rewarding those with  
eal connections rather  
underwriting knowhow.  
el F. Siebert, who owns  
own New York-based  
frets that front and  
operations, estimated  
market experts at over  
he 150 to 300 minor-  
owned firms, "are going  
in it for everybody."  
adds: "It ends up clos-  
ome doors to us."

st observers agree  
overall, policies to en-  
ge minority securities  
have been very suc-

al. Small minority-owned firms used  
ve a tough time breaking into the  
business, which generates fees ex-  
ng \$1 billion a year. But now gov-  
s and mayors in over 20 cities and  
s have enacted rules to spread busi-  
among firms owned by women and  
ities. For smaller firms just getting  
ed, "it's a matter of life and death."  
Norma Yeager, founder of Yeager  
al Markets Inc. in Los Angeles.  
ifornia has led the way. It was one



of the first states to set fee-sharing tar-  
gets for each muni issue: 15% for minor-  
ity-owned firms, 5% for woman-owned,  
and 3% for disabled veterans. Last year,  
these firms earned \$6.3 million through  
bond sales, the highest ever in the pro-  
gram's five-year history.

**"THE RIGHT THING."** Other strong advo-  
cates include Florida, Georgia, Illinois,  
New York, Washington, D.C., and Chica-  
go. "The efforts are not only appropri-  
ate, they are the right thing to do," says  
Francisco L. Borges, a former Connecticut treasurer  
and managing director of  
Financial Guaranty Insur-  
ance Co.

Muriel Siebert & Co.,  
the country's oldest securi-  
ties firm owned by a wom-  
an, is among the best-  
known beneficiaries of mi-  
nority set-asides. Started  
in 1967 as a retail broker-  
age operation, the concern  
has become a significant  
underwriter in the past  
eight years. Last year, Sie-  
bert underwrote pieces of  
bond issues that totaled  
\$19 billion, according to Se-  
curities Data Co.

Black-owned operations  
also have made strides.  
The country's largest mi-  
nority firm—Pryor, McClen-  
don, Counts & Co.—was  
senior manager on \$1.8 bil-  
lion in muni underwritings  
last year. In the past three

years, the Philadelphia firm  
doubled to 60 professionals.  
It's running neck and neck  
with San Francisco's Grigs-  
by Brandford & Co., which  
senior-managed deals worth  
\$1.7 billion in 1993. W. R.  
Lazard & Co., though shak-  
en by its founder's death  
from a cocaine-and-alcohol  
overdose, is the largest  
black-owned money manag-  
er, with \$2.8 billion under  
management.

The established minority  
firms are increasingly going  
head-to-head with a bumper  
crop of fledgling firms, some  
of them tied to major Wall  
Street firms. Says Robert  
B. Lamb, a management  
professor at New York Uni-  
versity's Stern School of  
Business and the author of  
an upcoming study of mi-  
nority-owned firms: "Estab-  
lished minority firms are  
now faced with an unlevel  
playing field where bigger  
firms are doing linkups with tiny or  
weak firms they can control."

Some leading Wall Street firms aren't  
helping matters. In managing muni syn-  
dicates, major Street firms often prefer  
to deal with small minority-owned firms  
to keep total control of the deal. Rather  
than give a strong minority player the  
full 15% of the deal to meet a state man-  
date, a lead manager may bring in 10 lit-  
tle firms and give each 1.5% of the  
bonds. Lacking staff and expertise, some  
tiny firms often just turn over bonds to  
the majority partners and split the com-  
missions. "Investment banking should  
not be a welfare program," gripes Napo-  
leon Brandford, co-chairman of Grigsby  
Brandford.

There are similar patterns in trading  
by minority firms. To meet state and  
local mandates, some public pension  
funds must allocate to minority firms a  
portion of their brokerage business. Yet  
in many cases, a pension fund will allow  
a major firm to handle the business for  
a minority firm. Major firms readily  
commit to such an arrangement because  
it wins them the lion's share of the busi-  
ness. "The minority firms will literally  
get checks in the mail for trades they  
weren't aware occurred," says the head  
of a large minority firm.

In many cases, minority- and woman-  
owned firms have financial links with ma-  
jor firms, which typically help both par-  
ties get business. Wheat, First Securities  
Inc. recently invested in Jackson Secur-  
ities, founded by Atlanta's former mayor,  
Maynard H. Jackson. A Wheat spokes-  
person says only that "it was an invest-

## BOOSTING MINORITY FIRMS

### FEDERAL AGENCIES

Resolution Trust Corp. and the Government  
National Mortgage Assn. both require that a  
portion of their business of issuing mortgage-  
backed securities be handled by minority- and  
woman-owned firms.

### STATE AND LOCAL GOVERNMENTS

ny municipal-bond issues must be underwritten in  
part by minority- and woman-owned underwriting  
firms. Atlanta, for example, allocates underwriting  
to African-American-owned firms, 3% to wom-  
an-owned, 2% to Hispanic-owned, and 1% to Asian-  
owned. Others, such as Dade County and New York  
City, must simply aim for minority inclusion.

### STATE AND LOCAL PENSION FUNDS

ne municipal pension funds, such as the Illinois In-  
vestment Board and the California Public Employees  
Pension System, must use minority-owned firms to  
manage a part of their assets. A few must also use  
minority firms to execute some trades.

DATA: BUSINESS WEEK, NATIONAL ASSOCIATION OF STATE TREASURERS



ment opportunity." After leaving the San Antonio mayor's office, Henry G. Cisneros founded his own money-management firm with a 15% investment from Criterion Investment Management Co., a Houston firm managing \$11 billion in assets. Criterion CEO Terence S. Ellis says it "just seemed like a good idea." Cisneros resigned after becoming Clinton's Secretary of Housing & Urban Development. Goldman, Sachs & Co. provided a subordinated \$1 million line of credit to Artemis Capital Group Inc., a firm founded by five former Goldman women professionals and one other woman. A Goldman spokesman says they wanted to support "a new business where the principals were former employees."

A major firm's goal in these arrangements is often to help get a struggling young firm off the ground, which can give the patron firm a public-relations boost. But it also can help the larger firm financially. Since Merrill Lynch trader John O. Utendahl, who is black, struck out on his own, Merrill has ponied up seed money of \$3 million and a \$9.9 million line of credit—and become an owner of 10% to 25% in Utendahl Capital Partners, according to a Securities & Exchange Commission filing. Utendahl specializes in underwriting U.S. agency securities. After just a year, Utendahl has \$13.8 million in assets and surplus capital of \$12.2 million.

Merrill and Utendahl won't disclose what Merrill earns on its investment. But Merrill is joining forces with Utendahl to help underwrite an upcoming \$2 billion issue by the Government National Mortgage Assn., which gives spots to minority firms. The two have also teamed up on RTC issues. Utendahl declined comment. "We wanted to help one of our employees," says a Merrill spokesman.

Just how independent minority firms are in these arrangements is less than clear. Last December, Ronald E. Blaylock, a founding Utendahl partner, decided to split off on his own. To help set him up, Bear, Stearns & Co. bought roughly 25% of R.E. Blaylock Partners and has supplied about \$10 million in capital. Bear Stearns units handle Blaylock's securities clearing and books and records. The relationship already is paying off for both firms. Blaylock and Bear

## Some of the tiny firms helped by affirmative action are little more than fronts for Wall Street giants

Stearns have teamed up in syndicates to underwrite two Chrysler Financial Corp. asset-backed issues totaling \$1 billion, and they will be co-leaders on a \$1 billion RTC offering in a few months. And the firm already has 21 employees, about 75% women and minorities. "Bear Stearns has no day-to-day say in the operation of my business," Blaylock says emphatically. But "let's just say I listen when an investor speaks," he jokes. A Bear Stearns spokeswoman says: "Blaylock is independent."

Some established, independent minority firms dislike these arrangements. "You have a minority firm competing against one of the major firms on Wall Street that, in effect, is cloaked in a mi-

ity securities trading firm and who does business with such clients as the San Francisco public pension funds under minority-allotment provisions. The two well-connected Hispanic owner Norman W. Berryessa and Herman Gallegos, have a two-thirds stake in the firm. But Gallegos Institutional operates as an extension of its 33% investor, McClurg Capital Corp. McClurg collects fees from Gallegos for back-office work. McClurg President David G. McClurg and his wife, who are not minorities, are two of five employees at Gallegos, which operates from McClurg Capital offices. "Somebody has to do the grunt work. I didn't want to set up an administrative operation," says Berryessa, the firm's chief executive. He says the firm "is not a front. We're fully qualified."

**PASSIVE ROLE?** Last November, Jefferies & Co., a Los Angeles-based brokerage set up Williams Capital Group, a trading firm run by Christopher J. Williams, who is still a Jefferies employee. Jefferies has a 39% stake in Williams Capital, which sublets space in Jefferies Manhattan office building, and executes

Williams Capital's trades. Williams, who is black, says Williams Capital solicits business as a minority firm and claims to be passive. "We only have a clearing relationship," says. "Any firm that has an outside investment interest is taking great pains to insure that the minority firms are independent." Jefferies CEO Frank E. Baxter describes it as "strictly an arm's-length business relationship."

Momentum is building to curb arrangements that critics feel undermine affirmative-action rules. Federal agencies already screen carefully. But state and local governments are only just starting reform. A recent Chicago or-

nance requires minority firms to submit bid proposals that include proof of their firms' minority ownership and securities qualifications. "To do a bond deal, you have to be competent and be able to do the work," says Maria Pappas, a Cook County (Ill.) commissioner. "Income tax advantages shouldn't, either."

*By Michael Schroeder and Keith Alexander, with Leah Nathans Spiro. New York and bureau reports*

## THE BIG PLAYERS

| Firm                                                     | Underwriting principal amount*<br>Billions | Assets<br>Millions | Fiscal 1993                   |                             |
|----------------------------------------------------------|--------------------------------------------|--------------------|-------------------------------|-----------------------------|
|                                                          |                                            |                    | Retained earnings<br>Millions | Surplus capital<br>Millions |
| <b>ARTEMIS CAPITAL</b><br>Woman-owned                    | \$53.5                                     | \$4.6              | \$0.3                         | 1.5                         |
| <b>PRYOR, MCCLENDON, COUNTS &amp; CO.</b><br>Black-owned | 44.5                                       | 10.0               | 6.4                           | 3.2                         |
| <b>GRIGSBY BRANDFORD</b><br>Black-owned                  | 36.9                                       | 9.8                | 2.5                           | 3.7                         |
| <b>W.R. LAZARD</b><br>Black-owned                        | 33.2                                       | 6.4                | 0.1                           | 1.2                         |
| <b>MURIEL SIEBERT &amp; CO.</b><br>Woman-owned           | 19.4                                       | 12.1               | 3.3                           | 3.4                         |
| <b>SAMUEL A. RAMIREZ &amp; CO.</b><br>Hispanic-owned     | 16.9                                       | 4.9                | 2.4                           | 1.8                         |
| <b>REINOSO &amp; CO.</b><br>Hispanic-owned               | 16.7                                       | 6.4                | 4.7                           | 5.3                         |

\*Total value of municipal bond issues in which firms participated as a member of underwriting syndicate

DATA: SECURITIES DATA CO., SECURITIES & EXCHANGE COMMISSION

nority status," complains Harold E. Doley Jr. of Doley Securities Inc.

The most questionable arrangements involve some nonminority firms whose ties to a minority firm are so tight that the two are virtually indistinguishable. At issue: just who benefits from business that public officials are trying to award to minority firms.

One example is Gallegos Institutional Investors Corp. in San Francisco, which was founded three years ago as a minor-



# OR ARBS, IT'S NOT THE '80s -BUT HEY, IT AIN'T BAD

the deal mill in high gear, risk arbitrageurs are rolling again

just a few weeks, shareholders of Viacom Inc. and Paramount Communications Inc. will finally see one of the biggest and most contentious takeover battles in years. In the 1980s, such fights were richly rewarding to risk arbitrageurs, the savvy sorts who invest in companies once a buyer makes an offer.

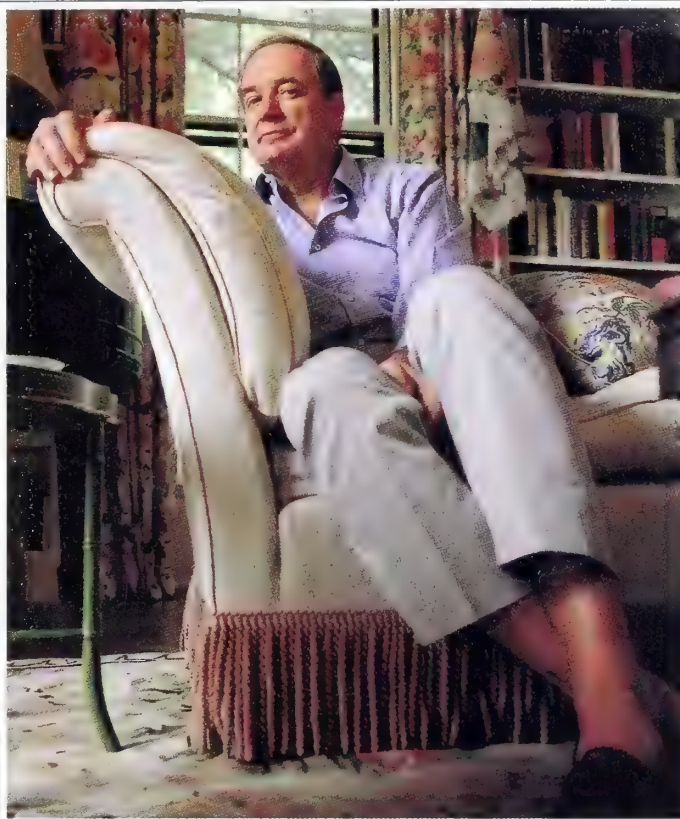
Not for all the hoopla over the deal—a much-glamorized bidding war between Viacom and QVC Network Inc.—the deal has delivered the little return and quite a few losses. That's because many of them acquired the companies at prices as high as \$1 billion. The deal is now worth less than 78¢ on the dollar.

**MONEY.** Don't cry for the arbs, however. Business has been better than it's been since the merger craze of the 1980s. The takeover boom of the past year has provided investment opportunities and made it easier for arbs to find money. Equally important, drawing new investors are the shakeouts in the stock and bond markets.

"The beauty of arbitrage is that its returns have little correlation with the stock or bond market," says Howard M. Merwin, managing director of Mesirow Investment Strategies, which offers alternative alternatives to traditional stock and bond investing.

Arbs estimate that today there's about \$3 billion to \$4 billion invested in deals, down from as much as \$18 billion a decade ago. As always, the money is mainly in private partnerships—where investors have to put in \$1 million or so—and in securities firms' proprietary trading accounts. There is one door to arbitrage that is open to investors of more modest means. The Merger Fund is the only mutual fund dedicated to merger arbitrage, and the minimum investment is \$100 (page 78).

Not everyone calls risk arbitrage by the same name anymore. Some prefer "event-driven" investing, figuring risk arbitrage



THIRD-GENERATION ARB WYSER-PRATTE RUNS \$250 MILLION

might dredge up unwanted connotations left over from the days of corporate raiders and insider traders.

There's no great mystery in what an arb does. When a takeover is announced, the arb buys the stock of the target company, which will usually sell at a few dollars below the offering price because of the risk that the deal may collapse. If the deal goes through, as most do, the arb may earn only a 5% return on the investment. But if it takes only, say, three months, that works out to a nifty 20% a year. "We perform a risk-transfer function," explains Guy P. Wyser-Pratte of Wyser-Pratte & Co., a third-generation arbitrageur. "We provide liquidity that allows shareholders to sell near the takeover price without incurring

the risk that the deal falls through."

Arbitrage partnerships don't have to report their numbers to the public. But consultants who dig for numbers find impressive ones. International Advisory Group Inc., a Nashville firm that matches investors with money managers, reports that during the 1988-93 period, the average returns for arb partnerships ranged from 10.4% in 1990 to 49.2% in

1988 (chart). The arbs' average for the period was 23.7% vs. 14.8% for the Standard & Poor's 500-stock index. In the first quarter of 1994, the arbs were barely in the black, but they were still well ahead of the market.

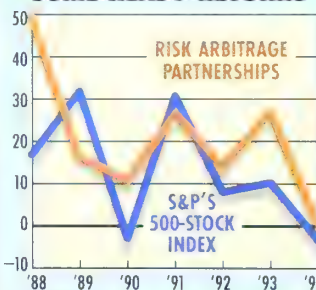
Despite the good returns, even big-name arbs are running a lot less money now than they did 10 years ago. During the 1980s, Wyser-Pratte was responsible for as much as \$1 billion, half of it on margin, when he ran Prudential Securities Inc.'s arbitrage operation. He went off on his own in 1991 when Prudential, like some other big firms, dropped the business. Today, he runs \$250 million and is beating the bushes for more. So is George A. Kellner of Kellner, Dileo & Co., a \$1 billion arb manager in the 1980s who runs just \$140 million today.

While rising interest rates can wreak havoc on stocks and bonds, the returns to arbitrage are unaffected. That's because when arbs buy a takeover stock, they will generally pay a price that allows them to earn some multiple of short-term interest rates, such as two to four times the T-bill rate, or 2.5 times the prime rate. If interest rates go higher, the arbs bid less for the stocks. If rates fall, arbs will pay more and thus accept a lower return.

**TAME SPENDING.** Still, the takeover mavens have to work harder and smarter to earn the returns to which they have been accustomed. True, the "deal flow" is up substantially—\$242 billion in announced transactions in 1993, a 61.7% increase over 1992, according to Securities Data Co. And 1994 deals so far are coming in at 1993's heady pace.

But the buyers of companies—even when they're in a bidding contest—are not spend-

## RISK ARBITRAGE: SOME HEADY RETURNS



▲ PERCENT  
DATA: INTERNATIONAL ADVISORY GROUP INC., MORNINGSTAR INC.



ing wildly. It's a far cry from the 1980s, when making money in takeovers was a lay-up. "When a deal was announced, all you had to do was to take a large position in the stock, lever it up [borrow money to buy more], and wait for the bidding to begin," says Kellner somewhat wistfully.

Today's buyers are mainly other companies in the industry who know the value of what they're buying. They're willing to pay—but just so much. For instance, Martin Marietta Corp.'s \$55-a-share offer for Grumman Corp. put the defense contractor into play and drew a \$60 counteroffer from Northrop Corp. But Grumman stock ran up to \$65, as some speculated that Martin Marietta would boost its offer. It didn't. Northrop eventually paid \$62 a share for Grumman.

Today's deals also have less cash and more securities. That, in part, is what

## Takeover mavens have to work harder and smarter than before

tripped up the arbs on Paramount. Viacom paid \$107 a share for 51% of Paramount's stock, but is paying for the rest with a hodgepodge of difficult-to-price debentures which can, at the company's option, be converted into preferred stock. Says Kellner: "That package changed the dynamics of the arbitrage business."

**COSTLY DELAYS.** The Clintonites are also far more concerned with antitrust and regulatory issues posed by takeovers than recent GOP Administrations. Indeed, regulatory actions helped to sink the huge Bell Atlantic Corp.-TeleCom-

munications Inc. merger in February.

Even if the takeovers are ultimately approved, delays can be costly. For Green, portfolio manager of the Merger Fund, estimates that he'll earn a 2% annual rate of return if AT&T's acquisition of McCaw Cellular Communications Inc. is completed by September. But the return could drop to less than 12% if the deal drags on to yearend.

With more cost-conscious acquirers and more complicated payout structures, and a more difficult regulatory environment, even the arbs are lowering their expectations. Says consultant Mark S. Ostrin of Graystone Partners: "From here on out, we think the major arbitrage managers will earn steady 10%-to-20% annualized returns." That may not be 1980s-like results. But in today's share markets, such returns would be manna from heaven.

By Jeffrey M. Laderman in New York

## A MUTUAL FUND THAT LETS YOU BE AN ARB

**A**rbitrageur Fred Green took over the management of a \$10.5 million mutual fund in 1989, renamed it the Merger Fund, and gave it the mission of investing in takeovers after deals were announced. Under his tutelage, this fund—the only mutual fund of its kind—has always made money. Still, by the end of 1992, the Merger Fund only had \$1 million more than when Green started.

Last year, when merger activity started to pick up, so did the fund's return—up 17.7%. And this time, investors took notice. Today, the no-load Merger Fund has \$85 million in assets, more than triple what it had in December. Some \$2 million a week is pouring in. It's up 3.2% for the year so far, which doesn't sound like much until you consider that most mutual funds are in the red.

What's pulling in the money is the fund's unique character. "We have a beta of zero," says Green, "which means the fund is largely insensitive to the fluctuations of the stock market." The Merger Fund is a lot less risky than other equity funds. Morningstar Inc., which tracks and rates mutual

funds, figures the Merger Fund has the third-lowest risk rating of 1,970 funds. Some financial advisers are recommending the Merger Fund to add balance to a portfolio.

Green says he runs the fund just the way he runs the \$45 million in private accounts that his firm, West-

Caw Cellular Communications, Adia Services, and BancFlorida, are hedge (table).

The Merger Fund's portfolio now holds many of the better-known takeover targets—Kemper, Gerber Products, and Syntex. But it also has Aldus Corp., a graphics software company that Adobe Systems Inc., a competitor, wants to buy. With Aldus selling at \$23.75 a share and its estimate of deal value surpassing \$29, many arbs are shunning the stock. There's a lawsuit by Aldus Corp., whose software Aldus sells, and potential antitrust problems as well.

"The market says this deal is no slam dunk," says Green. But he believes the problems will be resolved, possibly with a small reduction in Adobe's offer. But even if that happens, Green expects Aldus will end up "an extremely profitable deal."

Successful funds usually attract competitors. But Green says he's not worried. "I've got a 15-year record in arbitrage." Right now, that's something most mutual-fund companies don't have.

By Jeffrey M. Laderman in New York

### THE MERGER FUND'S TOP HOLDINGS

|                         | June 20<br>stock price | Takeover<br>value* | Estimated<br>close | Annualized<br>rate of return |
|-------------------------|------------------------|--------------------|--------------------|------------------------------|
| McCaw Cellular Comm.    | \$52.13                | \$55.88            | SEPT. '94          | 23%                          |
| Kemper                  | 59.25                  | 62-64              | OCT.               | 17                           |
| Adia Services           | 35.50                  | 40.00              | SEPT.              | 46                           |
| BancFlorida             | 28.50                  | 30.00              | SEPT.              | 19                           |
| Syntex                  | 23.00                  | 24.00              | JULY               | 39                           |
| Germantown Savings Bank | 60.50                  | 62.00              | SEPT.              | 10                           |
| Baltimore Bancorp       | 19.88                  | 20.75              | OCT.               | 13                           |
| Gerber Products         | 51.13                  | 53.00              | SEPT.              | 15                           |
| PSI Resources           | 21.75                  | 22.63              | SEPT.              | 12                           |
| Aldus                   | 23.75                  | 29.33**            | AUG.               | 118                          |

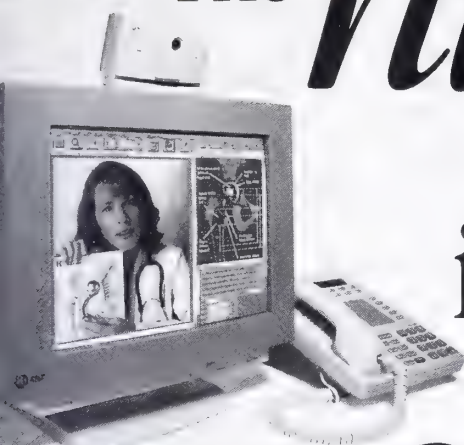
\*Estimated

\*\*78Subject to possible renegotiation

DATA: WESTCHESTER CAPITAL MANAGEMENT INC.

chester Capital Management Inc., manages. He and co-manager Bonnie L. Smith are conservative. They spread their investments among 40 deals. And like most arbs, they also hedge their positions whenever possible by short-selling the acquirers' stock. Six of the fund's top 10 holdings, including Mc-

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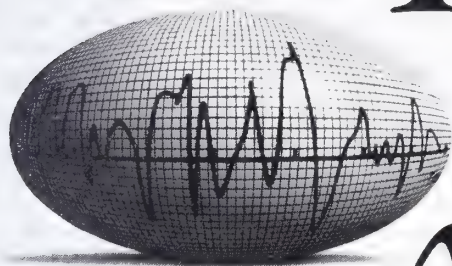


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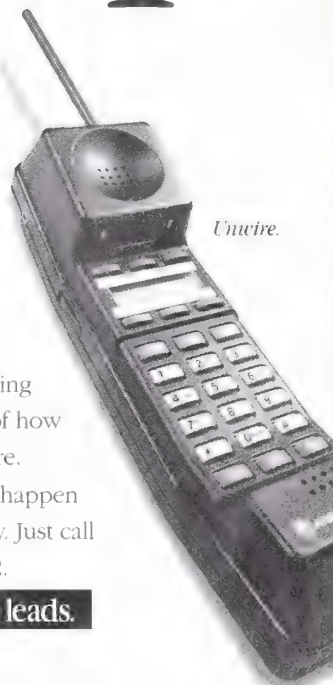
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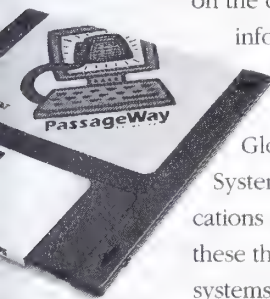
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BY GENE G. MARCIAL

## 'THE POT IS BOILING FOR KEMPER'

**W**ho would dare defy General Electric in its hot pursuit of Kemper?

A number of big financial-service companies, that's who. "The pot is boiling for Kemper," says one arbitrageur at a major Wall Street investment bank, "because the new bidders include Merrill Lynch, Chubb, and Travelers."

Kemper, which put itself on the block after GE's bid, is expected to set a July 1 deadline for all bidders. And it hopes to announce their names right after July 4, says a corporate insider.

From the way Kemper's stock has been trading, says the arbitrageur, it is clear the Chicago insurance, brokerage, and mutual-fund company has received other bids that well exceed GE's offer of \$60 a share. The stock is trading at around 59, which suggests that the offer will simply become the floor price in a bidding war they expect will flare up. A key Kemper attraction, analysts say, is that it's one of the nation's largest investment managers, with assets of \$65 billion.

One insider says the July 1 deadline will give the Kemper board a chance to assess the bids before the Aug. 22 annual shareholders' meeting. Kemper's board unanimously turned down an unsolicited GE offer in March to buy the company at \$55 a share. GE then raised it to \$60. Even so, Kemper's board stayed adamantly against the GE offer. "The market," says one arb, "believes GE will raise the ante to \$63 to \$65 when it becomes convinced there are other big players in the game."

**GOOD CATCH.** Michael Lewis, a senior analyst at Dean Witter Reynolds, is also high on Kemper. He believes the takeout price "will be \$65 to \$70 at least." With Kemper's asset-management, insurance, and mutual-fund operations, Merrill would become an even larger financial-service giant. A Merrill spokesman declined comment.

Chubb is a major insurer that underwrites property, casualty, life, and health insurance. Kemper's insurance, real estate, and mutual-fund businesses would complement Chubb's existing assets. A spokeswoman declined comment. And Travelers, formerly Primer-

## KEMPER MAY BE SET FOR ANOTHER CLIMB



ica, which offers insurance, consumer lending, and investment services, would find Kemper's operations a big boost for its sales and earnings. A spokeswoman says the company won't comment on rumors.

## CENTOCOR: NOT YET IN RECOVERY

**A**lthough most biotech stocks have been badly beaten up over the past two years, Centocor has managed to stay aloft at around 12, where it has been trading since December. Of late, Centocor seems to have gotten a shot in the arm, which gave analysts reason to raise their estimates. "But watch out," warns investment adviser Evan Sturza. He expects the stock to skid to 7.

Sturza, editor of *Sturza's Medical Investment Letter*, notes that analysts' renewed optimism was due to the recent vote by a Food & Drug Administration panel to approve Centocor's ReoPro, an experimental drug to prevent blood clots during coronary angioplasty surgery. Sturza contends that, contrary to some analysts' expectations, the FDA move won't necessarily produce earnings for Centocor, which has been in the red for the past four years. He says that the approval is "limited and conditional" and that Centocor will have to complete further studies to validate its claim on the efficacy of the drug. These costly studies, Sturza says, will prevent Centocor from becoming profitable next year.

According to Sturza, the bulls' estimates that it will make 33¢ to 83¢ a

share in 1995 are "just wrong." I notes that Centocor's marketing pa with Eli Lilly stipulates that each ge 50% of Centocor's earnings. So whate er Centocor will make from ReoP will have to be split with Lilly, anywa says Sturza, who sees Centocor conti uing to post losses. Centocor CEO D vid Holveck contends, however, th Sturza is way off. Holveck sees Cent cor making money next year.

## A PURE PLAY ON THE INTERNET?

**K**eeping up with the Internet that fast-growing worldwide we connecting computer network used by some 20 million people—is n easy task. Some people connect wi the Internet through Mecklermedia, technology publishing company that ce tain money managers regard as a pu play on the Internet.

Mecklermedia publishes magazin that cater to emerging informati technologies. Its chief periodical *Internet World*, with a circulation 100,000 that's projected to double b yearend—up sharply from just 20,00 six months ago. In addition, Meckle media publishes *CD-ROM World* and *Virtual Reality World*.

*Internet World* provides informati on ways of linking with the Internet. Users gain access to the networks and databases of users such as universitie libraries, governments, and business worldwide. *CD-ROM World* is all abo applying technology using a laser read data recorded on a disk. *Virtual Reality* reports on technologies that l users participate in three-dimensional environments generated by computer.

Now at 10, "Mecklermedia's stock just starting to reflect the vast bu ness opportunities in Internet," sa hedge-fund manager Brian Warne general partner at Performance Cap tal, who has been accumulating share. Another big stakeholder: Omega A visors, headed by Leon Cooperman.

Warner notes that Mecklermedia launching in September an on-lin shopping mall and yellow-page direct ry for shoppers, in combination wi such companies as Digital Equipme and General Motors' Electronic Da Systems. So Warner sees the comp ny's earnings soaring next year to 8¢ a share on revenues of \$16 million, u from 1994's estimated 5¢ on revenu of \$8 million. The stock, he says, cou double in a year.



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## FOR ACER, BREAKING UP IS SMART TO DO

It sees faster growth abroad by "deconstructing" itself

**F**ew businessmen have worked harder to make Taiwan's products respectable than Stan Shih. Chairman of Acer Inc., Shih has built the Taiwanese company from a small PC cloner into a giant in 18 years. Along the way, Shih received considerable help from Taiwan's state-run banks. So when a Taiwanese agency put up a billboard at Washington's Dulles Airport to kick off a Taiwan image-building campaign, it seemed natural to feature Acer's new notebook computer.

For Shih, though, patriotism has its limits. At the urging of his U.S. executives, who want to downplay Acer's Taiwan origins, he decided to have nothing more to do with the campaign. Why?

from semiconductor and peripherals manufacturing to PC assembly and sales (chart). By building a global string of companies capable of raising their own funds, Shih hopes to generate the cash and connections needed to quadruple Acer's sales, to \$8 billion, in six years.

But Shih is convinced he can't reach that milestone as a maker of thin-margin PCs. Instead, he wants Acer to be one of the world's highest-volume producers of key components and design services, both to Acer assembly plants overseas and to such big-name companies as Apple Computer, Canon, and Fujitsu.

Trouble is, the group's overseas subsidiaries have a different agenda: pushing sales of Acer's own brands. So

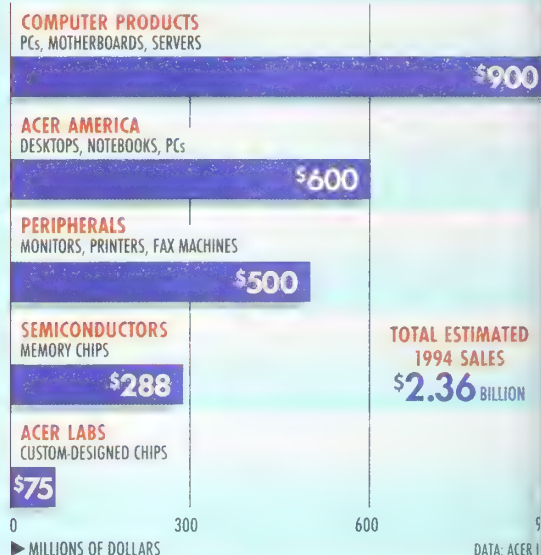
float shares of marketing arms in the U.S., Mexico, and Singapore in 1993. Acer will keep stakes of anywhere from 19% to 40%, which in most cases would allow it to retain control.

Giving Acer units financial independence from Taipei, Shih believes, is essential if they are to have adequate capital. He hopes to raise as much as \$2 million by publicly listing Acer America Corp., whose sales of PCs and servers soared 75% in 1993, to \$433 million, and are expected to surge an additional 40% this year.

**BOTTLENECKS.** But Acer America is likely to soar as a public company until it can deliver profits, too. It lost an estimated \$48 million in the past two years because of inventory bottlenecks at the \$94 million acquisition in 1990 of Intel Computer Systems Inc., a pioneer maker of microcomputers that now sells servers. In 1994, Acer America will be lucky to break even. Indeed, the Acer empire's profitability is not impressive. All told, the group reported \$77 million in profits last year on sales of \$1.9 billion. That was a 58% improvement over 1992, but still only a 3.5% after-tax margin. And 80% of the earnings came from



### ACER'S MAJOR COMPONENTS



With the island's reputation for low-end products, he says, "even bankrupt companies in Silicon Valley have better images than Taiwan companies."

Shedding his company's Taiwan identity is just part of the sweeping changes Shih is planning as he prepares Acer for global computer warfare. He wants to "deconstruct" the company, selling off majority stakes in 21 different business units in Asia and North America ranging

where does Shih invest—marketing or development of high-tech components? The solution, he says, is to turn his integrated empire into a "federation" of stand-alone units. Key component divisions will remain in Taiwan, but overseas affiliates that assemble and sell PCs will be listed on local stock exchanges and run by local managers. This year, he will spin off the peripherals and PC-distribution units in Taiwan. He plans to

a memory-chip joint venture with Te Instruments Inc.

Nevertheless, Acer is surviving the shakeout. According to International Data Corp., Acer was No. 10 in U.S. computer sales, shipping 83,000 PCs in this year's first quarter. Acer's growth in the U.S. led by its \$1,500 Acros PC, with sales nearly 20,000 a month, compared with fewer than 4,000 in early 1992. Other growth areas: servers and notebook F



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venture with Texas Instruments is bu-  
ing a \$460 million plant to produce n-  
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**TIGHT-FISTED.** To vault into the top t-  
of computer makers, however, A-  
needs to overcome its two bigg-  
weaknesses—marketing and distri-  
tion. Although Acer's machines are  
ten praised for their quality and pr-  
few top U. S. corporations are custo-  
ers. Moreover, less than 5% of Am-  
can PC consumers have heard of  
name. One big reason is Acer's \$14 m-  
lion advertising budget—a fraction  
the \$250 million that Compaq Comput-  
Corp. spends. Says Bruce Stephen, II,  
director of PC hardware: "They are  
ing to have to turn the volume up

**"Even bankrupt companies  
in Silicon Valley  
have better images than  
Taiwan companies"**

they will continue to be drowned o-

Despite griping by American man-  
ers, Acer has been reluctant to invest  
advertising. But plans to sell 60%  
Acer America's stock to the public co-  
help. "We would invest most of the p-  
ceeds in marketing and service," s-  
Acer America President Ronald Chw-

While Acer slugs it out in the U-  
however, its contract-manufacturing b-  
ness at home is thriving. Acer's Taiw-  
factories have landed large orders  
make desktop and notebook PCs for  
ple, Fujitsu, and NEC. Such work is  
pected to account for more than 40%  
overall sales, compared with 32% in 19-

But whether Acer's size will guar-  
tee success for its brands in the U. S.  
mains in doubt. Sales are spread ac-  
a number of market segments, and A-  
isn't among the leaders in any of th-  
Still, Shih is betting that Acer Ame-  
can make money in a variety of c-  
puter markets. One big edge is t-  
Acer can use its own factories—not s-  
contractors—for a reliable supply of  
expensive, Taiwan-made componen-  
That's one Taiwanese connection A-  
isn't about to abandon.

*By Pete Engardio in Hong K*



body has a longer walk to school.

Motorola is proud to sponsor the 1994 Western Open, benefiting the Evans Scholarship Foundation. This year, because of the Evans Scholarship, over 800 caddies from across the country will get where they want to go. To college.



Don't miss the oldest event on the PGA Tour. The Motorola Western Open can be seen on USA Network Thursday, June 30 and Friday, July 1, 4:00-6:00 p.m. EDT, and on CBS TV Saturday, July 2 and Sunday, July 3, 4:00-6:00 p.m. EDT.

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# WONDER CHIPS

## HOW THEY'LL MAKE COMPUTING POWER ULTRAFAST AND ULTRACHEAP

**T**hey've just rolled that old PC out of your office and brought in your new toy—the latest model based on Intel Corp.'s jazzy new 100-megahertz Pentium microprocessor. It is, you have to admit, a pretty amazing piece of work. There, in a \$4,000 box, sits the processing power of a 1988-vintage Cray Y-MP supercomputer from Cray Research Inc.—plus a lot of neat stuff that big systems never had, including a CD-ROM disk drive and stereo speakers.

What gives your Pentium PC—or a new Macintosh based on the PowerPC chip from Motorola Inc.—such amazing power is the culmination of decades of progress in the science of chipmaking. The microprocessors and memory chips that make these machines multimedia marvels are the latest proof of what's known as Moore's Law. Intel Chairman Gordon E. Moore observed 30 years ago that, by shrinking the size of the tiny lines that form transistor circuits in silicon by roughly 10% a year, chipmakers unleash a new generation of chips every three years—with four times as many transistors. In memory chips, this has quadrupled the capacity of dynamic random-access memories (DRAMs) every three years. In microprocessors, the addition of new circuits—and the speed boost that comes from reducing the distance between them—has improved performance by four or five times every three years since Intel launched its X86 family in 1979.

After a dozen generations of such multiplication, chip performance has snowballed

into today's mind-blowing speeds and capacities. And what's astounding is that the cost of this ever-increasing performance is forever going down. Take a 486-class personal computer, the kind you can pick up at the local warehouse chain. Among the microprocessor and DRAMs and the other chips inside it, you get roughly 100 million transistors that pack the wallop of an IBM 3090 mainframe from 1985. Yet the PC costs less than \$1,000. You can't buy 100 million of anything else so little. That many sheets of toilet paper would run more than \$100,000. This miracle of economics—"free" computing power—created the PC revolution and totally changed the electronics industry.

But the revolution has barely started. Compared with what's coming, the miracles that chipmakers have so far delivered like clockwork will seem like child's play. The compounding effect of Moore's Law has now brought semiconductors to the brink of a series of leaps that within a decade will yield by far the most powerful computers ever—and profoundly affect scores of other electronic products as well, ranging from mainframe-caliber telephones to intelligent TVs. The results will, over the next years, change many aspects of everyday life.

Call it gigachip technology—chips with a billion mini-transistors connected by a maze of circuitry. The capacity of memory chips has already climbed from 1 million bits to 500 megabits since 1985, or from 30 pages of typed text to 500 pages. But by 2005, a memory chip should hold 4 billion bits (gigabits). That's almost as much as all the text in two sets of

**TRANSISTORS WILL SHRINK  
TO JUST 0.1 MICRON ACROSS  
BY 2008—SO TINY YOU'D NEED  
A STRING OF 2,500 TO CIRCLE A  
HUMAN HAIR**

## WHY SMALLER MEANS BIGGER

*As the transistor shrivels, the capacity of memory chips will soar, and ultrafast new microprocessors will make today's supercomputers seem like snails*

### DRAM CAPACITY

In bits of data—and equivalent text in Encyclopaedia Britannica volumes

### MICROPROCESSOR SPEED

A chip's "heartbeat" governs how fast it can process software instructions

### SMALLEST FEATURE SIZE

Width of the thinnest circuit line or transistor element

**16**  
MEGABITS

**150**  
MEGAHERTZ

**0.5**  
MICRON

**64**  
MEGABITS

**350**  
MEGAHERTZ

**0.35**  
MICRON

**256**  
MEGABITS

**400**  
MEGAHERTZ

**0.25**  
MICRON

DATA: SEMICONDUCTOR INDUSTRY ASSN.,  
COMPANY REPORTS, BUSINESS WEEK

**1993**

**1996**

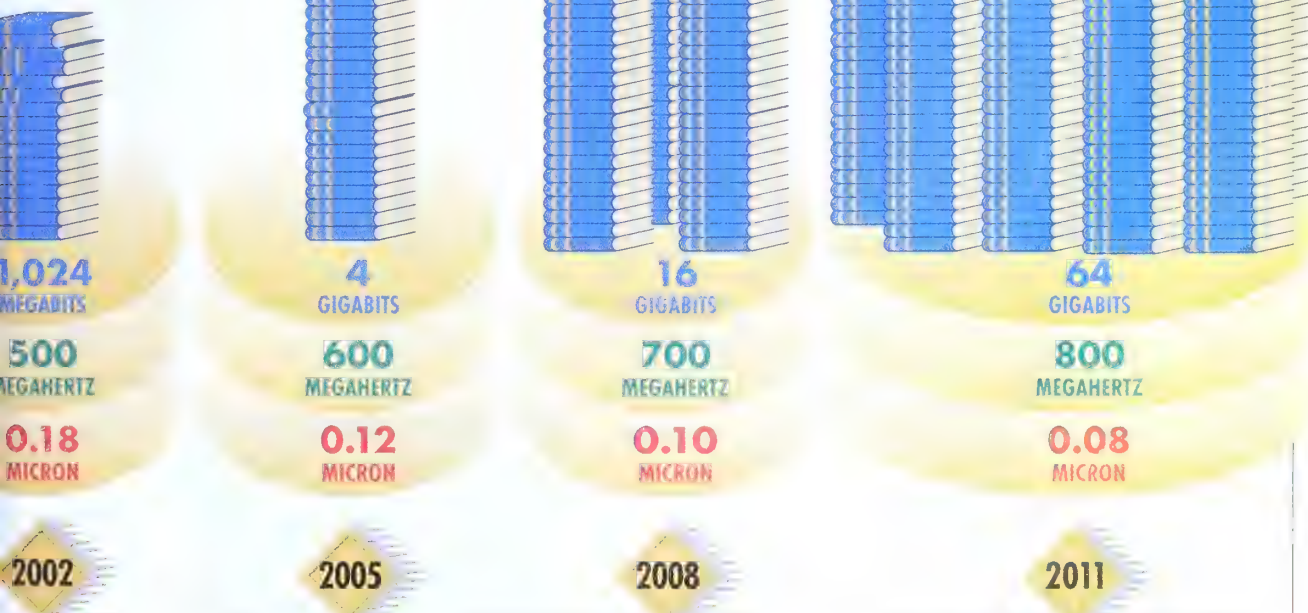
**1999**



Encyclopaedia Britannica. And when 64-gigabit memories are around 2011, they'll store a small library: 27 Britannicas. Moreover, the ability to lay a billion transistors on a chip will kill killer microprocessors. As the transistor count on microprocessors has climbed from 2,300 in 1971 to a few million today, the microprocessor has breezed past the minicomputer and the mainframe. Today, Digital Equipment Corp.'s Alpha chip is faster than the processor in a Cray Y-MP. "And we don't see anything slowing down these trends," says Richard J. Hughes, DEC's manager of advanced semiconductor development. Gigaprocessors, he adds, "will allow you to do things you never thought of before."

What? Personal Crays could, for instance, run any program, regardless of which type of computer it was written for. In other words, a single desktop machine in 2011 may be able to emulate any desktop ever built. If you want the interface of a Macintosh but prefer the spreadsheet handling of Lotus 1-2-3 on a PC, you'll be able to have your cake and eat it, too. Similarly, gigachips will have enough transistors to play multiple roles and turn a desktop printer into, say, a fax-modem-printer. So companies that have carved out niche markets could face new competitors, big and small.

**GETTING SMALLER.** Starting in 2005, second- and third-generation gigachip technology will allow unprecedented combinations of computing hardware into miniature boxes. The grandkids of today's personal digital assistants, for example, may fuse main power, a cellular video camera, and a wireless fax-modem into a flip-open housing the size of a deck of cards. They'll be cheap enough that every wallet and briefcase will have a computer hopping on the Information Superhighway—to keep Wall Street, home, and office. And order-taking systems that now me-





chanically intone, "Press 1 for information..." could get smart enough to understand spoken questions—and answer so articulately that it will be tough to tell if you're talking to hardware or fellow "wetware."

There will be lots more wonders. Smart TVs will keep track of your viewing preferences and suggest new programs, so you needn't surf through 500 channels. Libraries will house digital books that update themselves by using the global Internet to communicate with other libraries and databases that cover the latest developments in science, the arts, and business.

**BETTER BRAINS.** Ultimately, gigabit technology could even lead to silicon brains at least as intelligent as humans. "The potential of the computer is way, way beyond human potential," says Hugo de Garis, a researcher who last year moved to the Human Information Processing Research Lab in Kyoto, Japan. The human brain has about 10 quadrillion synapses, or connections between neurons, adds de Garis, "but this is trivial" next to the computer he plans to build. It would have billions of times more silicon "synapses," each far faster than the brain's.

All this and more will be possible—once process engineers nail down methods for cranking out gigachips economically. Getting to the first gigabit generation in 2002 will require only evolutionary improvements in production equipment, but it will take some groundbreaking new technology to go much further. Around 2005, chipmakers will hit the limit of light's ability to print microscopic lines on silicon. To make smaller transistors, they'll have to perfect ways to do the job with X-rays or electron beams.

Neither approach will be cheap. That's why chip producers also will be going all-out to trim the costs of wafer-fabrication plants—the hermetically sealed factories where chips are etched in saucer-size silicon disks known as wafers. If a wafer fab's price hits \$2 billion by 2000, as expected, chip prices may have to increase faster than performance—reversing the effects of Moore's Law. The semiconductor industry would do almost anything to avoid that (page 90).

In the meantime, researchers aren't waiting to dream up ways to use gigachip power. Computer scientists, for example, are pursuing completely new kinds of software. Already emerging are such glimmers as "evolutionary" programs and genetic algorithms that improve themselves with age and intelligent software agents that roam the electronic globe hunting down answers to questions both practical and pro-

found—from "What's the cheapest fare I can get to Seattle?" to "What is a quark?"

Scientists believe these and other one-time fantasies will become reality over the next two decades, triggering upheavals in business and society. "People don't realize how fast these things are going to come," says Thomas N. Theis, manager of semiconductor physics research at IBM's Research Div.

If silicon becomes as pervasive and

## SOME GIGACHIP MILESTONES TO LOOK FOR

2002

Monster microprocessors will turn PCs into "personal Crays." They'll run any software, regardless of which type of PC the program was written for.

2005

Smart TVs will keep track of your past viewing preferences and suggest new programs that dovetail with your personal tastes.

2008

Telephones will incorporate one-chip mainframes that instantaneously translate for callers who speak different languages.

2011

Computers will become so smart—and even humanlike—that they'll begin usurping entire corporate departments, such as accounting and logistics.

as smart as researchers envision, the workplace may undergo changes that could make today's downsizings seem trivial. "We're going to have a big impact on industry—essentially decentralizing it," predicts Mark C. Melliar-Smith, chief technical officer of AT&T Microelectronics, the telecom giant's chipmaking arm.

The reason: Networks of \$1,500 computers with the powers of today's \$15 million supercomputers will make it possible to do almost any white-collar task anywhere. The costly technologies now found only at headquarters, such as video-conferencing systems, will become standard features in all PCs. "We'll squeeze it onto one chip, and it'll become a consumer product," says Melliar-Smith. Then there will be no economic rationale to maintain large central offices. And that will change the nature of management.

Such transformations are going to sweep through other institutions as well. D. Raj Reddy, dean of Carnegie Mellon University's Computer Science School, worries about the education system's ability to prepare itself, let alone students, for the new world. "There's a chance that the university as we know it will cease to exist in 50 years," says Reddy.

Restructuring will hit especially hard in the electronics industry, says I. E. Eastman, a vice-president at IBM Research Div. Apart from the Japanese giants, only a few makers of computers and other electronics gear—IBM, Hewlett-Packard, and Siemens—actually produce their own chips today. It's almost certain that even fewer will do so in the future, given the staggering costs of semiconductor plants.

That could pose serious challenges for builders of electronics systems: Old chips won't be just components of a product—they'll be a product search for a box. Chips already represent as much as 75% of the hardware value of some computers, and that will increase. "With more and more value heading to the silicon," says Michael J. Attardo, IBM senior vice-president who runs Blue's microelectronics business, even one else is going to get squeezed. "Gigachips are going to get tighter," says C. Silverman, advanced technologies marketing manager at Hewlett-Packard. **NOT JUST INTEL INSIDE.** At the same time, gigachip technology could undo Intel's near-monopoly. Because a gigachip can have enough transistors to accommodate the guts of multiple microprocessors, it will be possible to create a performance chip that uses just a fraction of its silicon to emulate the old Intel chip and, therefore, remain compatible with existing software while offering far better performance.

Developing such a chameleon chip will mean all the major non-Intel designs are part of the Open Microprocessor Systems Initiative (OMI), a \$270 million European Commission project involving teams from 100-odd companies and university labs. OMI's initial focus is reduced instruction-set computing (RISC), a chip able to run software designed for half-dozen microprocessors, including Motorola/IBM PowerPC, Sun Microsystems' Sparc design, Advanced RISC

Machines' ARM chip, and the Transputer from SGS-Thomson's Immos Div. But it wouldn't take much to empower chameleon chips to act as microprocessors.

IN 2005, NEW CHIP PLANTS  
WILL CHURN OUT 100,000  
TRANSISTORS A WEEK  
FOR EVERY MAN, WOMAN, AND  
CHILD ON EARTH



and to run standard PC software. Intel, of course, isn't going to take things down. Recently, for example, it forces with HP to develop a hybrid chip that will lift the technologies of Intel's X86 family and HP's RISC to new levels of performance. Intel's next-century chips could offer their own emulations of rival chips.

Ultimately, the market for top-end processors might plateau—not because of the overwhelming powers of chips but because of something

assistant can pinpoint his location on a floor plan in an emergency. In an online world, this concept could reach everywhere—including the home. AT&T Bell Laboratories already has a prototype of HumaNet, where a futuristic living room is studded with ceiling sensors and equipped with remote-controlled gadgets, including a TV wall. And everything responds to verbal commands.

That points up another major trend in gigachip computing: Making machines easy to use by endowing them with hu-

manlike senses—fluid speech, a good ear, keen vision. IBM calls the concept “natural computing” and has set up a separate unit to tackle near-term applications, including speech recognition in the first models of its upcoming Power Personal Systems line of PCs.

search at Bell Labs. But when it's done, “the whole world is going to change.” The first barrier to fall may be speech recognition. “We've been working on speech for 20 years,” says Michael L. Dertouzos, director of Massachusetts Institute of Technology's computer science lab, “and it's finally bearing fruit.” In 10 years, even handheld computers will understand ordinary speech—and 15 years hence, predicts AT&T's Melliard-Smith, a pocket computerphone will instantaneously translate conversations between people speaking different languages. Today, he adds, it takes a file-cabinet-size translation system to manage a few hundred words.

But those tricks of the software engineer's art won't be possible unless the semiconductor industry clears its own near-term hurdle: the end of optical lithography. Since Silicon Valley's earliest days, chips have been printed the same way as photos: by shining light through a negative, or mask. At first it was visible light, but lately it's been with more precise ultraviolet (UV) light. Last year, SVG Lithography Systems Inc., a division of Silicon Valley Group Inc. in San Jose, Calif., unveiled equipment that uses UV light to

print 0.35-micron lines, which soon will be the industry standard for producing 64-megabit DRAMS. The key to stretching optical lithography into the next century is “deep-UV” light. Emitted by an excimer, or pulsing, laser, deep-UV light could print lines as skinny as 0.15 micron. That's sufficient, says Hisashi Hara, general manager of an advanced-technology lab at Toshiba Corp., to produce 1-gigabit chips. It's doubtful that optical methods can go beyond this, although Shoichiro Yoshida, executive vice-president of Nikon Corp., the leading supplier of lithographic systems, hints that novel light-emitting materials might do the trick. “There are some possibilities,” he says, “but I can't discuss them.”

Still, nobody believes that optical technology will work beyond the 4-gigabit level, which is expected to be reached in 2005. Something else will be required to produce 0.1-micron features. That's so teensy that if such transistors were silicon pearls, you would need a string of

**ULTRAPOWERFUL CHIPS WILL HELP CARNEGIE MELLON'S SHAFER BUILD A COMPUTER THAT CAN 'SEE' AND DISTINGUISH SHAPES**

manlike senses—fluid speech, a good ear, keen vision. IBM calls the concept “natural computing” and has set up a separate unit to tackle near-term applications, including speech recognition in the first models of its upcoming Power Personal Systems line of PCs.

**ENORMOUS JOB.** The idea is to end technological tyranny for good: Machines will no longer dictate how people must use them, but instead adapt to each user. If you don't like using a mouse, you could point to an icon on the screen to start your spreadsheet. Building computers that people can deal with almost as naturally as with another person is essential if the Information Superhighway is to be as publicly usable as the telephone system. It'll be an enormous programming job, says Larry Raviner, director of information principles re-





2,500 of them to circle a human hair.

The most promising candidate is electron beams. Theoretically, an E-beam system can produce lines as wispy as 0.02 microns wide, which would take chipmakers beyond 2025—to chips with trillions of transistors. The hangup is that E-beams write circuit lines with what amounts to a high-tech quill pen. Since a 256-megabit DRAM's circuitry will be equivalent to a street map of the entire world, "you can do only one wafer per hour" with an E-beam, says Masao Fukuma, senior manager of NEC Corp.'s Microelectronics Research Lab.

**CATCHING HEAT.** That's far short of today's output of 60 wafers an hour. Cornell University's National Nanofabrication Facility is working with IBM on a system that uses a grid of E-beam emitters to write the same pattern on multiple chips simultaneously. NNF Director Harold Craighead believes this process could etch 50 wafers an hour. "We're getting encouraging results," he says,

"but we're many years from a prototype production tool."

Around 2011 comes the real make-or-break point, when transistors are expected to dive below 0.1 microns. These little critters would switch on and off so fast they'd generate enough heat to melt holes in the silicon unless the chips

**AROUND 2020, COMPUTERS  
COULD BECOME AS POWERFUL AS  
THE HUMAN BRAIN—AND BY 2040  
MAY VASTLY OUTSTRIP IT**

are cooled with a refrigeration system. So either computers will grow big again, which would boost costs and slash market potential, or chipmakers will have to switch to a totally new breed of micro-switch—ultraclean quantum transistors.

These would exploit the weird world of quantum dynamics, where electrons

become waves that defy the law standard physics, enabling one quantum transistor to do the work of several. "That's what's neat about quantum transistors," says Mark A. Reed, a professor of electrical engineering at Yale University. By swapping a quantum device for several ordinary transistors, circuit complexity—and heat—could be reduced enough to avoid the need for refrigeration. **TERA FIRMWARE.** Fujitsu, Hitachi, Texas Instruments are among the chipmakers making strides in quantum electronics. Late last year, TI unveiled an experimental circuit with 17 quantum transistors that do the work of 40 conventional devices. If it all works, a 16-trillion-bit (terabit) memory chip is conceivable by the mid-to-late 2000s. One such monster would hold 6,667 of the *Encyclopaedia Britannica*.

On the other hand, researchers admit, it's also conceivable that quantum chips won't ever be economical for market products. In that event, the

## WILL WE KEEP GETTING MORE BITS FOR THE BUCK?

**F**or three decades, the computer and semiconductor industries have thrived on the confounding economics of chipmaking. Every three years, the cost doubles for "wafer fabs," the ultra-clean factories that fabricate chips on silicon wafers: It now stands at \$1 billion. Yet the big investments have paid off by making possible still-tinier circuitry that further slashes the cost of computing. With chipmakers delivering four times the processing speed and memory capacity at roughly the same price every three years, the market has been gobbling silicon like teenagers scarfing potato chips.

All this might change, however, when the cost of a world-class fab climbs to \$2 billion around the year 2000. Chipmakers won't be able to recover their investments unless they at least hold the line on prices—and prices might have to rise faster than performance. This would be a radical break in chip economics. Commodity chips such as dynamic random-access memories (DRAMs) "have always cost just a few dollars, regardless of their increased density," notes Craig R. Barrett, Intel Corp.'s chief operating officer. But when there's a \$2 billion investment to recoup, "you can't sell them at \$5 and make money."

Sticker prices have sometimes increased in the past, but the extra cost has always been more than offset by performance gains. In 1982, Intel's hottest microprocessor was the 286. It was

rated at 1 million instructions per second (mips) and cost \$360. Compare that with the Pentium, which Intel launched last year. It cost \$950, but pumped out 100 mips. So the per-mips cost was only \$9.50—a 97% plunge over 11 years.

To compensate for rising investment, chipmakers normally crank up output and spread the added expense over a larger number of chips. That's why the size of silicon wafers that end up getting sliced into dozens of chips has edged up steadily since the 1970s, from 2 inches to 6 and even 8 inches now—with 12 inches coming soon and 16-inch wafers due around 2000. These platter-size disks will hold four times as many chips as today's biggest wafers, which in the case of 16-megabit DRAMs is 212 chips per 8-inch wafer, according to Texas Instruments Inc. But even 16-inch wafers may not preserve traditional pricing trends.

**GIGA-BETS.** Chipmakers doubt that a modest increase in prices will dramatically dent chip demand, but that's not certain. And the uncertainty makes many producers queasy. Japan's chipmakers used to cough up capital even during recessions with no

qualms. "Everyone pushed ahead and didn't worry what the system would use it for," says Hisashi Heral manager of an advanced chip at Toshiba Corp., "because it was so that they'd find a way to use it." Billion-buck sums seem to push a button that wasn't tripped at \$

**AS FAB CLIMB  
TO \$2 BILLION,  
COST CONTAIN-  
MENT BECOMES  
ALL-IMPORTANT**





the incredible shrinking transistor  
at finally end in the 2010s.

Even so, gigachips will by then have  
ashed such an explosion of cheap  
puting power that the world will  
r be the same. In addition to artifi-  
speech, artificial vision is coming.  
y's approach is limited because it  
quires a computer to identify an im-  
by comparing it against a library

stored images.

new research

ises machine-vi-

systems as ve-

as the eye-

biosystem.

r Steven Shafer,

tor of Carnegie

on University's

erated Imaging Lab, the key is a  
er understanding of the physics of  
ception: How the brain analyzes tex-  
color, and reflectivity to extract  
ing from all the visual data that  
ult our eyes. That's why his lab is  
med floor-to-ceiling with objects of  
rent shapes, textures, and colors.

**HOLLINGSWORTH  
AND WAFER: GIGA-  
CHIPS 'WILL ALLOW  
YOU TO DO THINGS  
NEVER THOUGHT  
OF BEFORE'**



Shafer conceived the first physics-  
based theory for machine vision, called  
the Dichromatic Reflection Model, in  
1984, and it's used in the self-steering  
vehicle that CMU built for the Pentagon.  
But Shafer figures he's still a decade  
from his ultimate goal: "A computer that  
can identify objects when it doesn't have

any notion of what it's looking at."

Meanwhile, machines will be-  
gin getting perhaps the most valu-  
able sense of all: common sense.  
The trouble with computers is  
that they take everything so liter-  
ally. Send a note to the company  
librarian asking for data on the  
"plasitics" industry, and you'll no  
doubt get what you want. Put the  
same request to a computer data-  
base, and it probably will find  
nothing. To make computers less  
"brittle," a team led by Douglas B.  
Lenat, an artificial-intelligence pi-  
oneer at Microelectronics & Com-  
puter Technology Corp., the  
Austin (Tex.)-based electronics  
industry consortium, has been

stuffing a database with everyday  
knowledge—not the facts that fill ency-  
clopedias, but the grounding you need to  
comprehend what an encyclopedia says.  
Lenat expects to launch the first com-  
monsense software product next year.

When all these artificial senses get  
combined in gigachip systems, comput-

previous tab for a fab. For the  
years, capital budgets in Ja-  
e either frozen or trimmed—  
lack of satisfactory answers to  
justification questions.

strings are now loosening some-  
the industry still isn't adding  
ew capacity. Currently, there  
rld-class fabs around the globe.  
ulates that by decade's end, 22  
l be needed just to support  
the PC business. Murray A.

Goldman, senior vice-president of Motoro-  
la Inc.'s chip division, pegs the total need  
at twice that number. If they're right,  
shortages could compound any price  
hikes dictated by higher investments.

Put it all together, and cost contain-  
ment is becoming chipmaking's No. 1  
priority. Consultant G. Dan Hutcheson,  
president of VLSI Research Inc., figures  
just cutting corners could squeeze costs  
by perhaps 20%. For instance, instead  
of using gold piping to make sure no  
contaminants leach from the pipes into  
the ultrapure chemicals used to process  
wafers, Hutcheson argues that standard  
pipes with space-age filtering could do  
the job.

**PREFAB FABS.** Many other alternatives  
are being explored, with most chipmak-  
ers hunting for a magic recipe that  
would trim their investment increments  
by at least 30%. NEC Corp. is working on  
a convertible factory. It would consist  
of three modules, each producing a dif-  
ferent chip generation. Every three  
years, the oldest module would be  
opened up and renovated for making the  
latest chips. Sematech Inc., the chip-  
industry consortium in Austin, Tex., and  
Semiconductor Equipment & Materials  
International, a trade association, are  
championing so-called cluster tools, a con-  
cept pioneered by equipment maker Ap-  
plied Materials Inc. All production tools  
would have a standard connection that  
plugs into a central hub, where robots  
would shuffle wafers from one process to  
the next. Heretofore, every supplier has  
had its own interface, and integrating  
everything was a costly engineering task.

The most radical idea comes from TI.  
Working under a Defense Dept. contract,  
the Dallas chip giant has developed a  
\$30 million setup that it says can match  
the productivity of a \$1 billion fab. It's  
dubbed MMST, short for Microelectronics  
Manufacturing Science & Technology,  
and it reinvents the production of mi-  
crochips almost from the ground up. For  
instance, instead of processing wafers in  
batches of two dozen, MMST handles them  
one at a time—bringing "just-in-time"  
principles to wafer fabrication. "We have  
processed wafers in less than three  
days," slashing the usual cycle time by as  
much as 85%, boasts TI's Robert Doering,  
director of the MMST program. Toshiba's  
Hara expects the concept of single-wafer  
processing to spread, if only because 16-  
inch wafers will hold so many chips that  
only DRAMS and a few other high-vol-  
ume chips can justify being batched.

If all the work to prune the cost of  
wafer fabs pays off—and especially if TI's  
MMST concept takes hold—the 21st cen-  
tury could open with a hectic period of  
small startups turning out innovative  
chips. But if that doesn't happen, Amer-  
ica's small chipmakers will still be in de-  
mand, says Michael G. Borrus, co-director  
of the Berkeley Roundtable on the In-  
ternational Economy. In the coming age of  
one-chip products, he says, clever de-  
signs will be in greater demand than  
ever—especially if the cost of perfor-  
mance starts to increase.

*By Otis Port in New York, with Neil  
Gross in Tokyo, Robert Hof and Richard  
Brandt in San Francisco, and Peter Bur-  
rows in Dallas*





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| Current Yield <sup>4</sup><br>(5/27/94) |

2r

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## Special Report

ers a decade from now may become adept as people at interpreting ambiguous instructions and dealing with certainty. Augmenting these capabilities with software agents, evolutionary software, and other AI technology could make it possible to automate many white-collar jobs. Agents can learn a person's habits and routines, then carry out the tasks on their own. The first generation isn't all that intelligent. With gigachip power, a future agent that you repeatedly dispatch to fetch on-line news about China might decide to explore the network and look for other sources of data that have escaped your notice.

Somewhere down the line, perhaps as early as the first decade of the 21st century, the number of transistors on a cluster of chips will reach a critical mass that would make so-called emergent behavior inevitable. That's the inherent tendency of any dynamic system, given sufficient complexity, to begin exhibiting self-organization and rudimentary intelligence. It might happen spontaneously but probably it will be by design.

## When transistor density reaches critical mass, will intelligence emerge?

dozen research groups in the U.S. and Europe are intent on fashioning silicon brains more powerful than the human version. One team, the Brain Builder Group, was founded early last year by de Garis at the Human Information Processing Research Lab, part of Japan's Advanced Telecommunications Research Institute. In collaboration with Nippon Telegraph & Telephone Corp.'s nanoelectronics lab, he hopes to create a super silicon brain "within 10 years."

For now, superhuman silicon brains remain science fiction. But the results of these gee-whiz developments are producing pressure bets. Chips with the required power will almost certainly be produced over the next decade or so. So when you log onto a network to join a virtual work team in 2010, you may not be able to tell which co-workers are flesh-and-blood and which are silicon. Computers can't get any friendlier than that.

*By Otis Port in New York, with contributions from Gross in Tokyo, Robert Hof in San Francisco, and Gary McWilliams in Boston.*

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# Developments to Watch

BY RUTH COXETER

## SHAGGY FUZZYFOOT BEES TO THE RESCUE OF ALMONDS?



**C**alifornia's almond growers face a labor shortage: too few honey bees. Bees responsible for pollinating a crop worth nearly \$1 billion have been hurt by predatory mites and disease. To save the almonds, 500,000 bee colonies had to be brought in from out of state last winter. And almond acreage is increasing because of crop failures in Spain.

An answer to the shortage of honey bees could be putting other kinds of bees to work. U.S. Agriculture Research Service scientists are studying the use of so-called pollen bees, which are less versatile than honey bees because they pollinate certain plants and don't produce much wax or honey. One promising candidate is the blue orchard bee, which pollinates almonds, apples, and stone fruits such as peaches. An advantage is that pollen bees won't mate with Africanized bees, which are difficult to manage. The next step is breeding commercial quantities. Bumblebees, carpenter bees, and shaggy fuzzyfoot bees are other contenders.

## CLEAN WATER, WITH A LITTLE HELP FROM THE SUN

Researchers at the University of Texas at Arlington have a bright idea for cleaning and disinfecting water: use the sun. Their process, called solar-assisted disinfection, destroys bacteria and contaminants by exploiting a chemical reaction between ultraviolet light and titanium dioxide, a white pigment found in everything from paint to sunscreen.

Added to the water, titanium dioxide acts as a photocatalyst, splitting beams of ultraviolet light into wavelengths that kill bacteria and chemicals by oxidation. Minutes later, the titanium dioxide is filtered out and reused. Currently, the technique could be used by campers or the military in remote areas. But chemists Krishnan Rajeshwar, Sanjay Basak, and their colleagues see broader applications. They hope to use the process to destroy tough targets like algae, *Giardia lamblia*, or *Cryptosporidium*, the protozoa that recently plagued Milwaukee's water supply.

## NEW BANDAGES CAN MAKE UTILITY POLES FEEL NEW AGAIN

The U.S. has somewhere between 200 million and 300 million wooden utility poles—roughly one for every American. Poles last only 30 to 40 years on average and are difficult to replace because they are treated with undesirable substances such as creosote. Plus, replacing them costs several hundred dollars apiece. That's a market opportunity for companies such as Osmose Wood Preserving Inc. in Buffalo, N.Y., or Fox Industries Inc. in Conyers, Ga., and Fox Industries Inc. in Baltimore, which make systems for repairing old poles.

PoleCare makes FiberTect, a glass-fiber bandage that wraps around weakened poles from three feet below the soil line to three feet above. A phenolic resin similar to the resin in plywood is rolled on between the wraps. PoleCare says the bandage makes poles stronger than new and more fire-resistant, extending their life by about 25 years. Fox's system involves a glass-fiber jacket that goes loosely around a pole. The gap between the pole and the jacket is filled with epoxy resin. Both companies' treatments start around \$400 per pole. Osmose, the industry leader, also offers a glass-fiber system. But Senior Engineer Nelson G. Bingel says the cheapest solution is a simple steel truss.

## MAKING PCs POWER-MISERS BY CUTTING THE JUICE TO THEIR BRAIN

**S**o-called power management is common in portable computers. The idea is to prolong battery life by cutting off power to the disk drive and display if the keyboard hasn't been used for a few minutes. But PicoPower Technology Inc., a three-year-old company in San Jose, Calif., argues that it's more efficient to regulate power based on what the machine—not the user—isn't doing.

PicoPower has developed a chip that peeks inside the microprocessor to keep tabs on what's going on in there. When the "brain" chip launches an operation that involves waiting an eyeblink for some result, PicoPower's chip instantly cuts the power—then restores it a split second before it's time to resume the operation. Since any PC's processor twiddles its thumbs most of the time, PicoPower President Robert H. J. Lee says his patented approach reduces power consumption by an average of 70%. Trimming power that much also means a significant reduction in heat, which can help desktop PCs with hot-running microprocessors such as Intel Corp.'s Pentium keep their cool. So PicoPower's market isn't just laptops. That may explain why the startup has been snapped up for \$60 million in stock by Cirrus Logic Inc. in Fremont, Calif.

## A BRIGHT IDEA FOR WRITING MESSAGES ON THE NIGHT SKY

**E**ver write in the air at night with sparklers? The fiery light burns a temporary image into your retina. Yokohama-based Avix Inc. has used the same effect to make a baton for police that etches nighttime warnings in thin air. The battery-powered device fools your eyes with 32 light-emitting diodes (LEDs). The baton is held vertically



and swept from side to side. It creates an image in horizontal stripes the same way a skywriting airplane does, except with flashes of light instead of smoke puffs. It could be used to write, say, "stop" in Japanese or English.

Osaka police are testing the baton, which will be marketed by Mitsubishi Corp. at \$115 a pop in sets of 50. So far, each baton writes only one message, since the letters are hard-wired into the chip. Avix hopes to make one that offers a choice. It's also developing a 16-LED version for motorists and partiers.



EDITED BY AMY DUNKIN

Investing

## BEYOND YIELD: BETTING ON BOND 'DURATIONS'

**T**he rout in the bond market earlier this year left investors feeling shaky. And just as nerves were starting to steady, continuing weakness in the dollar prompted talk of another Federal Reserve interest rate hike. Nevertheless, bond prices have fallen so sharply that you may be entertaining the notion of buying again. If so, looking beyond yield to understanding a bond's "duration" can come in handy. With things as unstable as they are, a lot of pros advise leaning toward shorter durations.

Duration is the measure money managers use to evaluate bond risk. It can help you limit your losses if interest rates rise or help you decide which of two bonds with similar yields and maturities is the riskier. It can also be used to compare the volatility of mutual funds. Duration isn't a factor if you hold bonds to maturity, but sometimes you have to cash out early. And if you're in a mutual fund, there is no set maturity to hold to. So with a lot of savings going into bond funds, duration is especially important. "Now, when the best of the bull market in bonds is behind us, everyone is looking at duration to invest defensively," says Marilyn Cohen, director of fixed income at L&S Advisors in Los Angeles.

The duration of a bond or bond fund is an estimation of how long it will take you to recoup your investment. It's a lot more precise than maturity because it takes into account the amount of the coupon, how frequently you get paid, and the price of the bond. It's calculated by multiplying the present value of each bond's payment by the

number of years in which payment is offered, then dividing the sum of these by the price of the bond.

The coupon payments given decreasing values cause inflation makes a dollar today worth more than in the future. Thus the sooner you get the money back, the more valuable it is. Since the value of the payments decreases over time, duration is usually shorter than maturity. One exception: zero-coupon bonds. Since you get no money before maturity, their duration equals their maturity.

**VOLATILITY.** The longer money is out on loan, the more at risk it is. So the lower the coupon, the faster you get your money back and the lower the duration. The higher the coupon, the longer the duration. Compare two bonds with identical yields to maturity of 7.59% and similar maturities: A 22-year Treasury selling at \$963.20 with a coupon of 7.25% has a duration of 10.66 years, while a 21-year Treasury at \$1,378.60 with a coupon of 11.25% has a duration of 9.4 years. Thus the second bond with the lower duration would be the better bet if rates were to rise.

Duration also can reveal how much the value of a bond or fund will change in interest-rate swings of 10 basis points or less. If a bond fund has a duration of 10 years, a 1% rise in rates will lower the price by 5%. If it falls 1%, the bond's price will rise 5%. Therefore the longer the duration, the greater the volatility of your bond's value. A 20-year zero will lose 20% of its value if rates rise 1% and if rates drop, you could realize 20% capital gain.

So if you think the out-





es is still clouded, buy with short durations; if ink rates will fall, buy with long durations. he past two years, when Cohen thought interest had bottomed out, she d the duration in her apal-bond portfolios from 25 years. "If my munis 25, then a 1% move affect the portfolio by than 4.25%," she says. ng that, "every month rter when you get your ent, you're not shocked ur principal is exposed." e bond fund managers te an average duration he durations of many "The vast majority of unds have very specific on targets," says San-agg, managing director dard & Poor's mutual-ating group. In fact, ers often trade to main-iven duration. anies that track the ance of mutual funds, s Morningstar and Lip-alytical Services, have

hen life-insurance agents call, one of their elling tools is the illus-, that daunting set of rs that estimates how he cash value of a pol-ll increase each year. ouble is, the estimates ually based on current s. So if interest rates u can owe more money hen you think your pol-aid in full. andful of insurers, in- g Phoenix Home Life, ngland Mutual, Connec-utual, and Manufactur-e, are trying to correct blem with more realis-closure materials. The lustrations show what ey would be worth if hich determine how y cash builds, remain e, rise, or drop. er changes include high- g a policy's guaranteed um value, clearly stat- at the projections aren't eed and asking consu- o sign a statement say- ey understand what e buying. Phoenix sim- llustration language,

## HOW BONDS REACT TO EVENTS

| Event                        | Price                           | Yield                           | Duration       |
|------------------------------|---------------------------------|---------------------------------|----------------|
| <b>INFLATION RISES</b>       | Falls                           | Rises                           | Falls          |
| <b>BOND AGES</b>             | Moves toward par                | Moves toward shorter-term rates | Falls          |
| <b>BOND IS DOWNGRADED</b>    | Usually falls                   | Usually rises                   | Usually falls  |
| <b>CALL BECOMES LIKELY</b>   | Usually moves toward call price | Moves toward shorter-term rates | Falls          |
| <b>PRINCIPAL PAYMENT</b>     | Falls                           | Rises                           | Rises slightly |
| <b>COUPON PAYMENT</b>        | Falls                           | Rises                           | Rises slightly |
| <b>PREPAYMENT RATE RISES</b> | Moves toward par                | Moves toward shorter-term rates | Falls          |

DATA: LEHMAN BROTHERS INC.

added a duration calculation to income funds. A fund's duration may also shed light on a manager's strategy. If the fund is supposedly invested in intermediate Treasuries of 5 to 7 years and the company tells you the duration is 11, you know something's wrong because the duration can't be longer than the maturity, says Stan Carnes, chief portfolio

strategist for the financial-services unit of Lehman Brothers. It may signal that the fund is boosting returns by adding riskier long-term bonds or mortgage-backed securities to the mix.

If you can't find a fund's duration, call the company and ask. "I get calls all the time for updates," says Robert Auwaerter, manager of Van-

guard's taxable-bond-fund portfolios. Bond funds, unlike individual bonds, never mature, but they do allow you to keep your money invested at a specific target duration.

While duration may be the best measure of bond risk, it's far from perfect. It only calculates price volatility in response to interest rates, not total return based on income, says Ron Ryan, whose Ryan Labs in New York researches fixed-income securities. And as rates are constantly changing, so does duration, although it doesn't change a lot.

Duration can be applied to high-yield callable bonds and mortgage-backed securities, but it can get pretty obtuse with complex debt securities. It's really best applicable to Treasuries and to high-grade corporate and municipal bonds. If you stick to such bonds or funds that invest in them, it should be a helpful aid in the quest for yield and a discriminating ally in safeguarding your investments. *Pam Black*

## Insurance

### LIFE INSURANCE: THE REAL BOTTOM LINE

substituting "payment" for "premium" and providing definitions for terms such as "cash value" and "dividends."

The revisions come in the wake of recent problems at Metropolitan Life and Prudential involving the sale of life insurance and other investment products. "The concern surrounding Met and Pru has persuaded insurers that more disclosure is in their best interest," says Phoenix CEO Robert Fiordella.

**ON GUARD.** Still, insurers could go further by, say, disclosing commissions paid to agents and other charges that factor into a policy's cost, says Keith Maurer, president of Fee for Service, a Tampa insurance brokerage. He says many of the new illustrations are still too confusing.

Various industry groups are also promoting change.

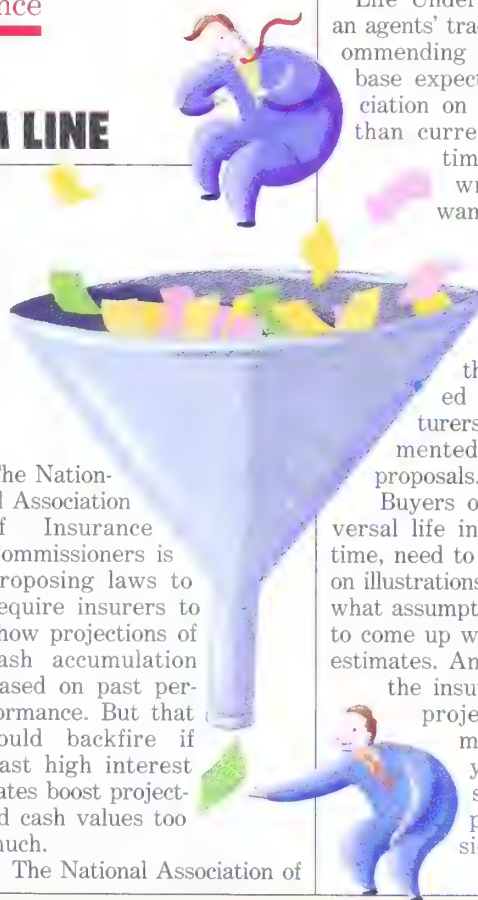
The National Association of Insurance Commissioners is proposing laws to require insurers to show projections of cash accumulation based on past performance. But that could backfire if past high interest rates boost projected cash values too much.

The National Association of

Life Underwriters (NALU), an agents' trade group, is recommending that companies base expected cash appreciation on rates 1% lower than current ones at the time the policy is written. It also wants companies to warn consumers when an insurer's investment portfolio is earning less than the illustrated rate. Manufacturers Life has implemented some NALU proposals.

Buyers of whole or universal life insurance, meantime, need to fix a sharp eye on illustrations. Ask the agent what assumptions were made to come up with cash-growth estimates. And ask how well the insurer has met its projections. The more information you have, the smarter your purchase decision will be.

*Chris Roush*





William H. Reaves has witnessed all kinds of markets in the 47 years he has been following utility stocks. As head of W.H. Reaves in Jersey City, he manages more than \$1.1 billion in assets for a number of institutional clients. Over the past 30 years, Reaves has bested the total return of the Standard & Poor's 500-stock index by about 4% on average. Last July 1, Reaves began managing Strong American Utilities Fund. Soon after, higher interest rates and other unwelcome sparks began short-circuiting electric utility stocks. The affable South Carolina native recently discussed the state of electric utilities with business week's Edward C. Baig.

**Q** This is a particularly tough time for electric utilities. What will it take to turn this group around?

**A** The electric-utility group is so much out of favor now that it's hard to remember how popular it was [last summer]. Actually, when a group is very much out of favor, the pickings start to get pretty good. If interest rates continue on an upward trend, it's going to be a tough climate. If rates decline, people would be rather surprised at how nicely utilities can snap back. At present, we have about 25% in electrics, 46% in telephones, 5% in gas stocks, 18% in energy, and the rest in cash.

**Q** One potential threat is that some states are considering letting big electrical customers buy power from any producer.

**A** There are going to be some fundamental changes in the industry structure. Some of these changes can add financial risk to certain companies. It is likely to develop over years, and strong companies can take advantage of opportunities.

**Q** Which companies do you like?

## Smart Money

### TALKING UTILITIES WITH A GUY WHO'S PLUGGED IN

**A** Most electric utilities will remain financially strong. These companies have good cash flow and [no major] construction needs and really good management. You have to slim down to a few really strong horses that you have great confidence in. You also

progress support, meaning they can collect a return in their rates during the construction period. SCANA is another good company building a plant and getting work-in-progress support.

For many other companies, just because they're out of fa-



REAVES: BETTING ON A FEW "STRONG HORSES"

have to recognize that when a market decline happens, the good and bad fall together. So you can make a shift from this one to that one and add to your potential.

We're investing long-term with Duke Power, Southern, and TECO Energy. We're confident they can continue to compound values at an advantageous rate. TECO and Duke [were such] superior companies that we basically couldn't afford to own them. So when the decline came, and the good and bad fell, we said: "Thank you very much."

You need companies that are reasonably regulated and have rate structures and economics in good shape. Unless something comes out of left field—inflation, major cost upheavals—you can get by fine and benefit by cutting costs. Southern and Duke are in that category. TECO is building a state-of-the-art, low-cost, efficient power plant and getting what we call good work-in-

progress support, meaning they can collect a return in their rates during the construction period. Public Service Enterprise Group's rate structure is sound. Boston Edison is another one in a good position. If you have a company like Public Service that yields 8.5%, you can take a big slam in the marketplace and your dividend bails you out.

**Q** Were you surprised that Florida Power & Light cut its dividend even when the company was relatively healthy?

## Worth Noting

■ **CLEAN AIR.** Based on enthusiastic response from passengers and flight attendants, United Airlines has extended its test of smoke-free international flying to three routes serving London's Heathrow Airport: San Francisco, Los Angeles, and Washington, D.C. (Dulles). However, one of the two daily flights to London from those cities will

**A** I think everybody was prised. What FPL did was honorable. Here is a company that says: "We are financially healthy. So we're going to retire our own shareholders and use a lot of that to buy back shares and, having that, show you a 5% earnings gain and encourage people to hope for a dividend increase of about 5% next February."

That's smoke and mirrors. If this trend is picked up by any significant [number of companies], then I guess this industry will sell below book value. I certainly hope not. I do not expect [Reaves did anticipate the dividend announced on July 16 by SCEcorp, holding company Southern California Edison.]

**Q** So you think electric utilities are

**A** You have to be careful and and we plan to. People who manage utility portfolios have to be alert

the regulatory situation affecting each company. And [utility managers] end up with an impossibly desperate regulatory situation. You have to ask what they are doing at the legislative level to help change it in a constructive way.

Most of the companies are strong financially and are going to remain so for an indefinite period. They will be able to carry us across the valley until we see what they are going to be.

still allow smoking. United began the test on Mar. 1 on New York-to-London and Los Angeles-to-Auckland routes. ■ **CUT-RATE STAYS.** Through Sept. 30, Steigenberger Observation Service (800-5652) will book rooms at off regular rates at more than 150 independent European hotels in 17 countries. Rates are guaranteed in U.S. dollars, so you don't need to worry about currency fluctuations.



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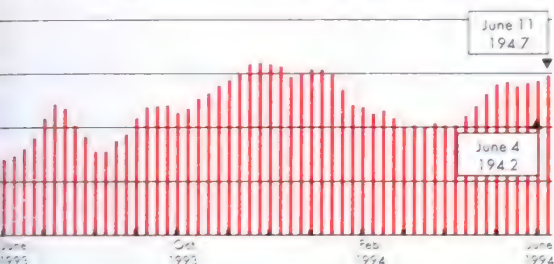
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# Business Week Index

## PRODUCTION

Change from last week: 0.3%  
Change from last year: 3.9%

1967=100 (four-week moving average)

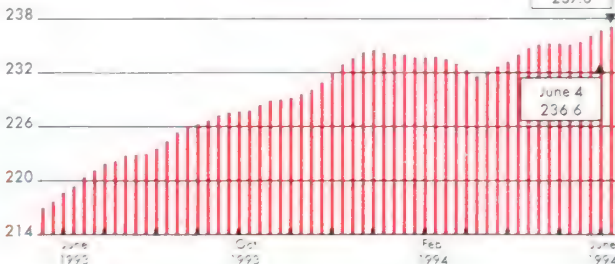


**Production index** rebounded during the week ended June 11. On a seasonally adjusted basis, output levels of steel, autos, trucks, electric power, crude oil, and lumber all increased. Coal, paperboard production, and rail-freight declined, while paper output was unchanged from the previous week. Before calculation of the four-week moving average, the index rose to 196.2, from 194.5 in the week ended June 4.

BW production index copyright 1994 by McGraw-Hill Inc.

## LEADING

Change from last week: 0.2%  
Change from last year: 8.1%



The **leading index** was little changed during the week ended June 11, despite some rallying in the financial markets. Higher stock prices and lower bond yields were offset by slower growth in M2. Growth in real estate loans and materials prices were virtually unchanged from the previous week. Data on large-business failures remained unavailable. Before calculation of the four-week moving average, the index rose to 238, from 237.4.

Leading index copyright 1994 by Center for International Business Cycle Research

## PRODUCTION INDICATORS

|                                                  | Latest week | Week ago  | % Change year ago |
|--------------------------------------------------|-------------|-----------|-------------------|
| (/18) thous. of net tons                         | 1,917       | 1,916#    | 4.2               |
| (6/18) units                                     | 141,532     | 143,743r# | 7.4               |
| (6/18) units                                     | 115,817     | 119,576r# | 14.5              |
| ELECTRIC POWER (6/18) millions of kilowatt-hours | 68,475      | 62,134#   | 9.4               |
| OIL REFINING (6/18) thous. of bbl./day           | 14,128      | 14,321#   | 0.2               |
| (/11) thous. of net tons                         | 19,770#     | 18,732    | 8.0               |
| PAPERBOARD (6/11) thous. of tons                 | 878.9#      | 887.9r    | 2.9               |
| (6/11) thous. of tons                            | 804.0#      | 808.0r    | -2.1              |
| (6/11) millions of ft.                           | 481.7#      | 402.7     | 4.4               |
| RAIL-FREIGHT (6/11) billions of ton-miles        | 22.7#       | 21.0      | 6.6               |

Sources: American Iron and Steel Institute, Ward's Automotive Reports, Edison Electric Institute, Petroleum Institute, Energy Dept., American Paper Institute, WWSA, SFPA, Association of American Railroads

## CURRENCY EXCHANGE

|               | Latest week | Week ago | Year ago |
|---------------|-------------|----------|----------|
| YEN (6/22)    | 101         | 103      | 107      |
| MARK (6/22)   | 1.60        | 1.63     | 1.70     |
| POUND (6/22)  | 1.53        | 1.51     | 1.48     |
| FRANC (6/22)  | 5.48        | 5.58     | 5.57     |
| DOLLAR (6/22) | 1.39        | 1.38     | 1.28     |
| FRANC (6/22)  | 1.35        | 1.37     | 1.51     |
| PESO (6/22)   | 3.376       | 3.364    | 3.115    |

Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

## COMMODITIES

|                                              | Latest week | Week ago | % Change year ago |
|----------------------------------------------|-------------|----------|-------------------|
| (/22) S/troy oz.                             | 392.450     | 384.100  | 6.9               |
| CRAP (6/21) #1 heavy S/ton                   | 111.50      | 111.50   | 0.0               |
| UFFS (6/21) index, 1967=100                  | 215.1       | 217.0    | 5.2               |
| (6/18) c/lb                                  | 114.8       | 111.0    | 29.6              |
| UM (6/18) c/lb.                              | 68.0        | 64.5     | 27.1              |
| (6/18) #2 hard, S/bu.                        | 3.72        | 3.74     | 12.4              |
| (6/18) strict low middling 1-1/16 in., c/lb. | 78.32       | 77.57    | 40.6              |

London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals and Minerals City market, Memphis market

Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment from Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

## LEADING INDICATORS

|                                           | Latest week | Week ago   | % Change year ago |
|-------------------------------------------|-------------|------------|-------------------|
| STOCK PRICES (6/17) S&P 500               | 460.49      | 458.10     | 3.1               |
| CORPORATE BOND YIELD, Aaa (6/17)          | 7.94%       | 7.85%      | 8.5               |
| INDUSTRIAL MATERIALS PRICES (6/17)        | 102.7       | 101.6      | 7.7               |
| BUSINESS FAILURES (6/10)                  | NA          | NA         | NA                |
| REAL ESTATE LOANS (6/8) billions          | \$427.3     | \$426.3r   | 3.7               |
| MONEY SUPPLY, M2 (6/6) billions           | \$3,547.6   | \$3,552.5r | 1.8               |
| INITIAL CLAIMS, UNEMPLOYMENT (6/4) thous. | 359         | 358        | 4.4               |

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

## MONTHLY ECONOMIC INDICATORS

|                                              | Latest month | Month ago | % Change year ago |
|----------------------------------------------|--------------|-----------|-------------------|
| INDUSTRIAL PRODUCTION (May) total index      | 116.1        | 115.9r    | 5.5               |
| CAPACITY UTILIZATION (May)                   | 83.5%        | 83.6%     | 3.1               |
| HOUSING STARTS (May) annual rate, thous.     | 1,510        | 1,472     | 21.7              |
| BUDGET SURPLUS OR DEFICIT (-) (May) millions | -\$32,054    | \$17,454  | -13.3             |

Sources: Federal Reserve, Commerce Dept., Treasury Dept

## MONETARY INDICATORS

|                                     | Latest week | Week ago   | % Change year ago |
|-------------------------------------|-------------|------------|-------------------|
| MONEY SUPPLY, M1 (6/6)              | \$1,145.1   | \$1,143.3r | 6.8               |
| BANKS' BUSINESS LOANS (6/8)         | 291.4       | 293.7r     | 5.2               |
| FREE RESERVES (6/8)                 | 873r        | 688r       | 23.7              |
| NONFINANCIAL COMMERCIAL PAPER (6/8) | 152.9       | 155.5      | -1.6              |

Sources: Federal Reserve (in billions), except for free reserves, which are expressed for a two-week period in millions

## MONEY MARKET RATES

|                                        | Latest week | Week ago | Year ago |
|----------------------------------------|-------------|----------|----------|
| FEDERAL FUNDS (6/21)                   | 4.14%       | 4.23%    | 3.00%    |
| PRIME (6/22)                           | 7.25        | 7.25     | 6.00     |
| COMMERCIAL PAPER 3-MONTH (6/21)        | 4.55        | 4.54     | 3.26     |
| CERTIFICATES OF DEPOSIT 3-MONTH (6/22) | 4.55        | 4.43     | 3.21     |
| EURODOLLAR 3-MONTH (6/17)              | 4.45        | 4.44     | 3.19     |

Sources: Federal Reserve, First Boston



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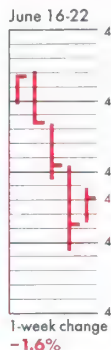
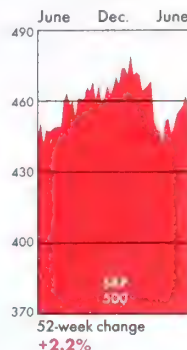
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# Investment Figures of the Week

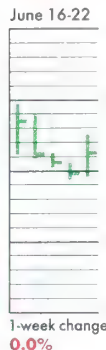
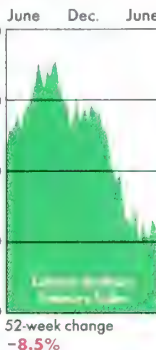
## MARKET ANALYSIS

Markets tumbled as the dollar war low. The greenback's value fell 100 yen on June 21. Analysts say the Federal Reserve will hike interest rates to support the dollar. The Dow reacted by falling below 3700 in its opening session in a row. The market also got spooked by a yield on the 30-year bond topped 7.5%. Comments by Chairman Alan Greenspan on long-term rates were too buoyed the markets. But stocks sank.

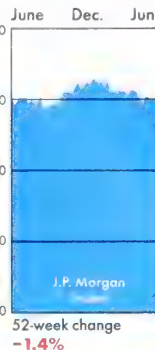
## STOCKS



## BONDS



## THE DOLLAR



## MARKET ANALYSIS

|                              | Latest   | % change<br>Week | % change<br>52-week |
|------------------------------|----------|------------------|---------------------|
| <b>INDUSTRIALS</b>           |          |                  |                     |
| INDUSTRIAL INDEX             | 3724.8   | -1.7             | 7.4                 |
| COMPANIES (S&P MidCap Index) | 166.5    | -2.8             | 1.8                 |
| COMPANIES (Russell 2000)     | 245.3    | -2.4             | 7.7                 |
| COMPANIES (Russell 3000)     | 259.9    | -1.9             | 2.4                 |
| <b>FINANCIAL STOCKS</b>      |          |                  |                     |
| (FINANCIAL TIMES 100)        | 2960.4   | -2.8             | 2.1                 |
| (Nikkei Index)               | 20,581.3 | -3.3             | 5.6                 |
| (TSE COMPOSITE)              | 4052.2   | -2.7             | 2.5                 |

## FUNDAMENTALS

|                              | Latest | Week ago | Year ago |
|------------------------------|--------|----------|----------|
| 90-DAY TREASURY BILL YIELD   | 4.26%  | 4.21%    | 3.19%    |
| 30-YEAR TREASURY BOND YIELD  | 7.39%  | 7.40%    | 6.76%    |
| S&P 500 DIVIDEND YIELD       | 2.78%  | 2.74%    | 2.80%    |
| S&P 500 PRICE/EARNINGS RATIO | 20.2   | 20.4     | 22.3     |

## TECHNICAL INDICATORS

|                                           | Latest | Week ago | Reading  |
|-------------------------------------------|--------|----------|----------|
| S&P 500 200-day moving average            | 461.8  | 462.0    | Negative |
| Stocks above 200-day moving average       | 36.0%  | 37.0%    | Positive |
| Speculative sentiment: Put/call ratio     | 0.47   | 0.48     | Positive |
| Insider sentiment: Vickers sell/buy ratio | 0.99   | 1.09     | Positive |

BLOOMBERG FINANCIAL MARKETS, BRIDGE INFORMATION SYSTEMS INC

## INDUSTRY GROUPS

|                                       | % change<br>1-month | % change<br>12-month |                                 | % change<br>1-month | % change<br>12-month | Price  |
|---------------------------------------|---------------------|----------------------|---------------------------------|---------------------|----------------------|--------|
| <b>MONTH LEADERS</b>                  |                     |                      | <b>Strongest stock in group</b> |                     |                      |        |
| ELECTRICITY, ELECTRONICS AND SERVICES | 5.9                 | -10.5                | McDERMOTT INTERNATIONAL         | 25.0                | -20.0                | 25     |
|                                       | 5.8                 | 0.9                  | GERBER PRODUCTS                 | 47.3                | 93.4                 | 51     |
|                                       | 5.1                 | 16.3                 | INLAND STEEL INDUSTRIES         | 14.1                | 35.3                 | 34 1/2 |
| TELECOMMUNICATIONS                    | 4.7                 | -17.4                | ROLLINS ENVIRONMENTAL SVCS.     | 11.1                | -34.4                | 5      |
| SPACE AND DEFENSE                     | 4.1                 | 19.3                 | BOEING                          | 8.2                 | 23.6                 | 47 7/8 |
| <b>MONTH LAGGARDS</b>                 |                     |                      | <b>Weakest stock in group</b>   |                     |                      |        |
| RETAILERS AND HOTELS                  | -9.8                | 17.3                 | PROMUS                          | -18.7               | 5.4                  | 31     |
| CONSTRUCTION                          | -9.0                | -24.3                | KAUFMAN & BROAD HOME            | -22.8               | -21.2                | 14 3/8 |
| COMPUTER SYSTEMS                      | -6.4                | 9.5                  | UNISYS                          | -20.7               | -17.1                | 9 1/8  |
| BEVERAGES                             | -6.3                | -6.6                 | PEPSICO                         | -14.3               | -13.8                | 31 3/8 |
| MANUFACTURED HOUSING                  | -5.5                | 13.3                 | FLEETWOOD ENTERPRISES           | -6.9                | 17.5                 | 20 1/8 |

## MUTUAL FUNDS

|                                     | %    | <b>LAGGARDS</b>                          |       | % |
|-------------------------------------|------|------------------------------------------|-------|---|
| <b>4-week total return</b>          |      | <b>Four-week total return</b>            |       |   |
| WELLS FARGO STRATEGIC INVESTMENTS   | 15.2 | WRIGHT EQUIFUND ITALIAN NATL. FID. EQTY. | -11.2 |   |
| WELLS FARGO SERVICES GOLD           | 12.8 | FIDELITY SELECT SOFTWARE & COMPUTER      | -9.5  |   |
| WELLS FARGO JAPANESE SMALL COMPANY  | 8.4  | PAINWEBBER EUROPE GROWTH B               | -8.3  |   |
| <b>52-week total return</b>         |      | <b>52-week total return</b>              |       |   |
| WELLS FARGO EMERGING MARKETS INSTL. | 46.2 | MONITREND GOLD                           | -30.3 |   |
| WELLS FARGO LATIN AMERICA           | 43.9 | STEADMAN OCEANOGRAPHIC TECHNOLOGY        | -21.5 |   |
| WELLS FARGO INTERNATIONAL           | 43.7 | EXCEL VALUE                              | -21.2 |   |



MORNINGSTAR INC.

## RELATIVE PORTFOLIOS

|                  | Foreign stocks  | Gold            | U.S. stocks     | Money market fund | Treasury bonds |
|------------------|-----------------|-----------------|-----------------|-------------------|----------------|
| Amounts          |                 |                 |                 |                   |                |
| at the present   |                 |                 |                 |                   |                |
| \$10,000         |                 |                 |                 |                   |                |
| one year ago     |                 |                 |                 |                   |                |
| portfolio        |                 |                 |                 |                   |                |
| changes indicate |                 |                 |                 |                   |                |
| total returns    |                 |                 |                 |                   |                |
|                  | <b>\$12,350</b> | <b>\$10,632</b> | <b>\$10,404</b> | <b>\$10,201</b>   | <b>\$9,903</b> |
|                  | -1.87%          | +1.69%          | -2.39%          | +0.05%            | -2.20%         |

These figures are as of market close Wednesday, June 22, 1994, unless otherwise indicated. Funds include S&P 500 companies only; performance and share prices are as of market close.

June 21. Mutual fund returns are as of June 17. Relative portfolios are valued as of June 21. A more detailed explanation of this page is available on request.



## A CAT FIGHT WITH NO WINNERS

**T**he clash between Caterpillar Inc. and its unions is a needless mess. With its Japanese archrival Komatsu Ltd. eating dirt worldwide, thanks partly to the high yen, Cat's business is booming, and its employees are earning up to \$40 an hour, some of the best pay in the country. Yet instead of being a great success story, this is a petty tale of managers firing employees for wearing buttons and of workers launching guerrilla strikes shutting down critical production. If this were a sandbox with two kids screaming at each other, it would make more sense.

The fact is, the Cat fight is a brutal battle for control. Compromise appears to be the last thing either side desires. Before the 14,000 United Auto Workers walked out on June 21, sales were soaring and workers were being added to the assembly lines. Now, an atavistic labor-management shoving match threatens everything (page 34).

Cat Chairman Donald V. Fites certainly had a powerful case when he began bargaining with the UAW three years ago. It made no sense, he argued, for Cat to adopt blindly the "pattern" contract the UAW had won at Deere & Co.—as Cat had done in the past. Why? Cat was a construction-equipment company competing around the world, while Deere was a mostly domestic farm-machinery maker. The union disagreed and proceeded with a strike of more than five months, which ended only when Cat threatened to hire permanent replacements. The workers got zilch toward their demand for job security, alienating them from the union.

Now the union is back, again asking for job security. This time, Cat, which has just hired 1,000 new workers to keep up with demand, appears in a position to grant it—but won't. By firing a stream of employees for wearing buttons and T-shirts that attack Fites, Cat has driven many members back into the arms of the UAW.

The union isn't behaving much better. It has refused to bargain seriously and has called a strike that seems as much motivated by macho posturing as does Fites's behavior. The discord at Cat is more about ego and power than labor costs or pattern bargaining. This is something no one—Cat, the union, or shareholders—can afford. Both sides should climb down from their high horses and get on with the business of making great equipment for which customers around the world are willing to pay big bucks.

## PRYING OPEN EUROPE'S PHONE MONOPOLIES

**S**print Corp.'s \$4.2 billion alliance with France Telecom and Deutsche Bundespost Telekom is a chance for the U.S. to pry open Europe's biggest remaining telecommunications monopolies. Without Sprint or an equally fleet-footed U.S. partner, the French and the Germans have

little chance of competing globally. But to gain access to the U.S. market, these government-owned systems must agree to end their monopolies at home.

British Telecom's \$5 billion investment in MCI Communications Corp. is no problem, because the British market is wide open. Not so Germany and France. Without reciprocity, the Federal Communications Commission and the Justice Dept. should stop this deal.

This is a perfect moment for the U.S. to call for reciprocity. Europe is currently rethinking its telecommunication order. A report on the coming so-called Information Society, which is to be debated at the European summit in Corfu, Greece, on June 24 proposes speeding up deregulation by creating a pan-European regulatory body akin to the FCC. Asking for reciprocity in the Sprint deal would be a good timing for all involved.

## AFFIRMATIVE ACTION, NEGATIVE OUTCOME

**M**ore and more U.S. cities and states are adopting affirmative-action programs in awarding financial business. From underwriting municipal bonds to managing pension funds, local governments are requiring that there be minority participation. The intention is good: to build up businesses that are owned by blacks, Hispanics and women.

There is an economic cost, of course. Any social policy that interferes with efficient markets theoretically raises costs and reduces the margin, even if the effect is slight. But society is supposed to benefit overall.

That's the rub. Increasingly, tiny minority firms are acting as fronts for big financial firms, parlaying their political contacts into fat fees. This is especially true in the municipal bond market (page 74).

Take California. The state mandates what are, in effect, affirmative-action targets for each muni issue: 15% for blacks and Hispanics, 5% for women, and 3% for disabled. These mandates provide a strong incentive for Wall Street to team up with minority-owned finance houses. But only a dozen such minority firms in the country have the capital and experience to do the job. The rest go through the motions and front for the big players.

Worse, many are owned and controlled by the big firms. In the money-management game, large firms shed money-management and trading business from pension funds by promising to fulfill minority requirements through a affiliated firm. Fair enough—except when that minority firm is really captive, using capital and computers from Wall Street houses to execute transactions.

Fronting has been a problem in government set-aside programs in construction and cable TV for years. Now it's becoming a serious issue in municipal finance. If the goal is to build strong minority businesses, then fronting is an insult not only to taxpayers but also to legitimate minority businesspeople struggling for a place in the corporate sun. It may be legal, but it isn't right.



## Risks hardly ever travel alone.

Risks prowl ceaselessly around every business. Usually, they hunt in packs. Dealing with them piecemeal is ineffective. More often than not, they're linked.

Nowhere is that linkage more intricate than in the airline business. Fuel prices, interest rates, currency swings, load factors, even political pitfalls — each risk has to be examined in light of the others.

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To others, it is a point where the past is abandoned in favor of the future.



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Ultimately, though, the real meaning of a sports car is found in the driving. And that's why crossing the line wasn't just an end. It was a beginning. Call 1-800-GO-TOYOTA for a brochure and location of your nearest dealer.

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BAL 1000 VALUABLE COMPANIES CLINTON CREDIBILITY ABROAD?

55 WEEK  
July 11

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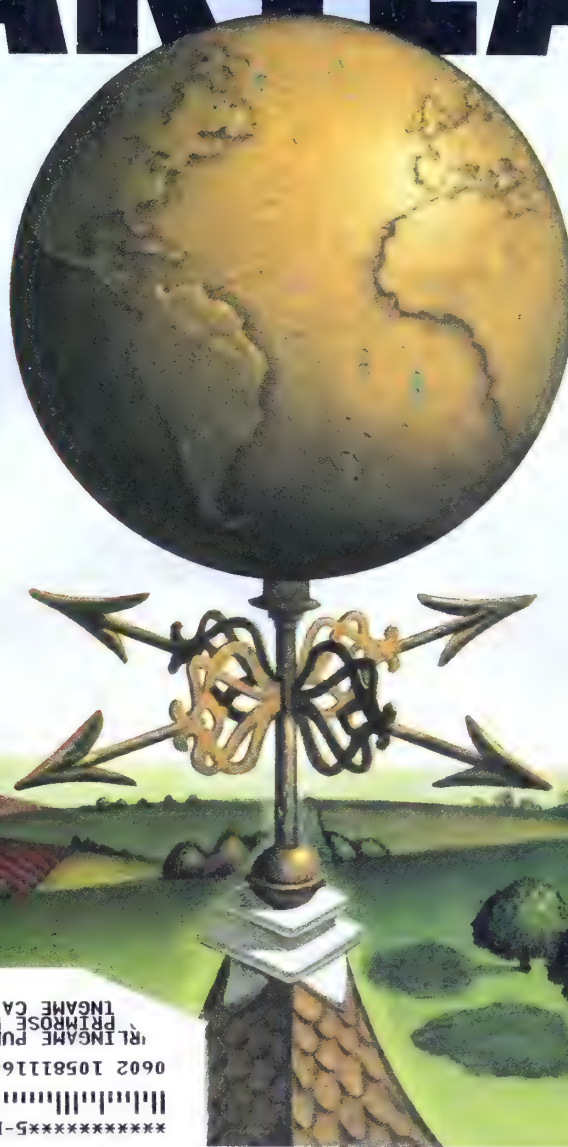
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The  
Midwest's  
New Role  
in the  
Global  
Economy

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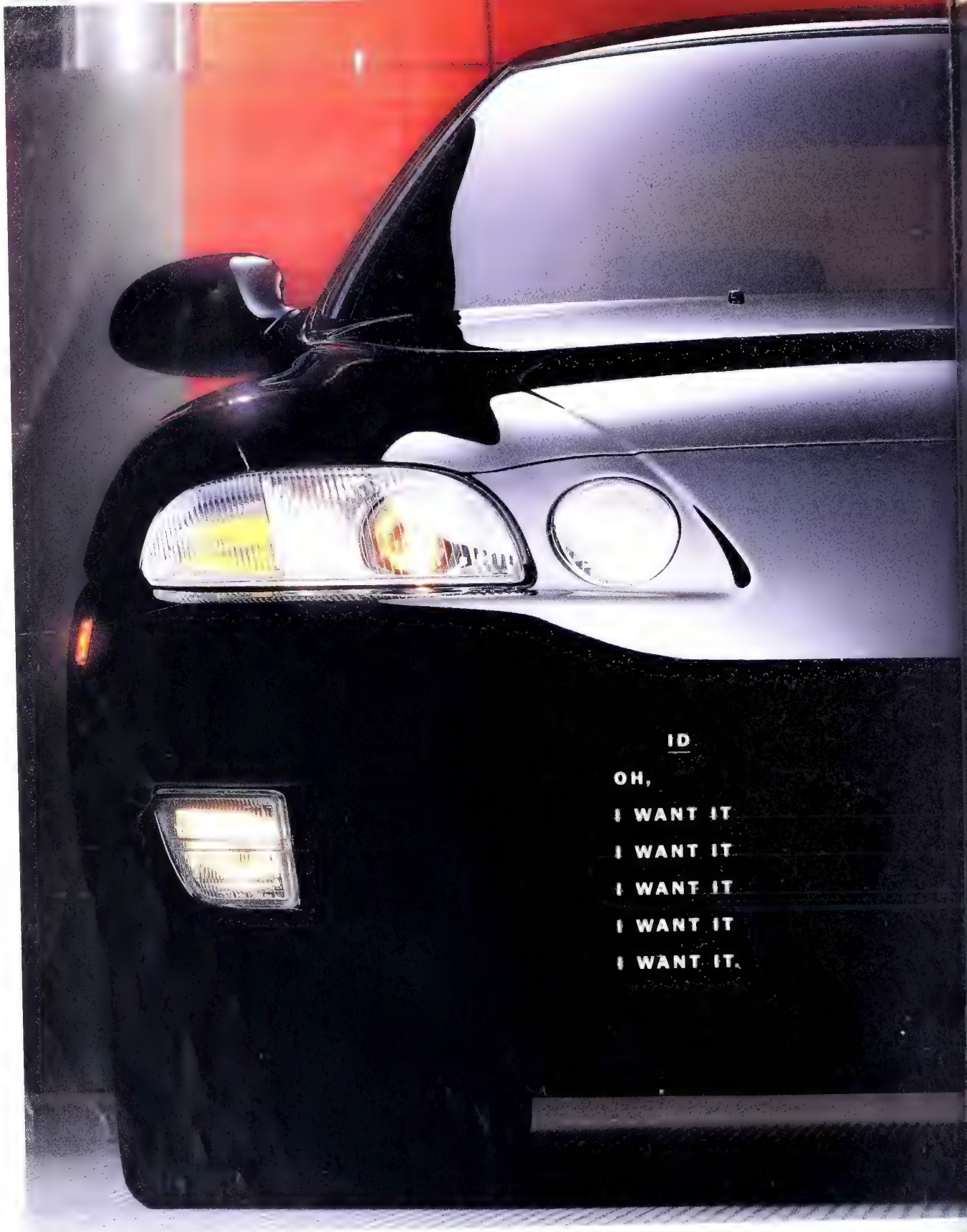
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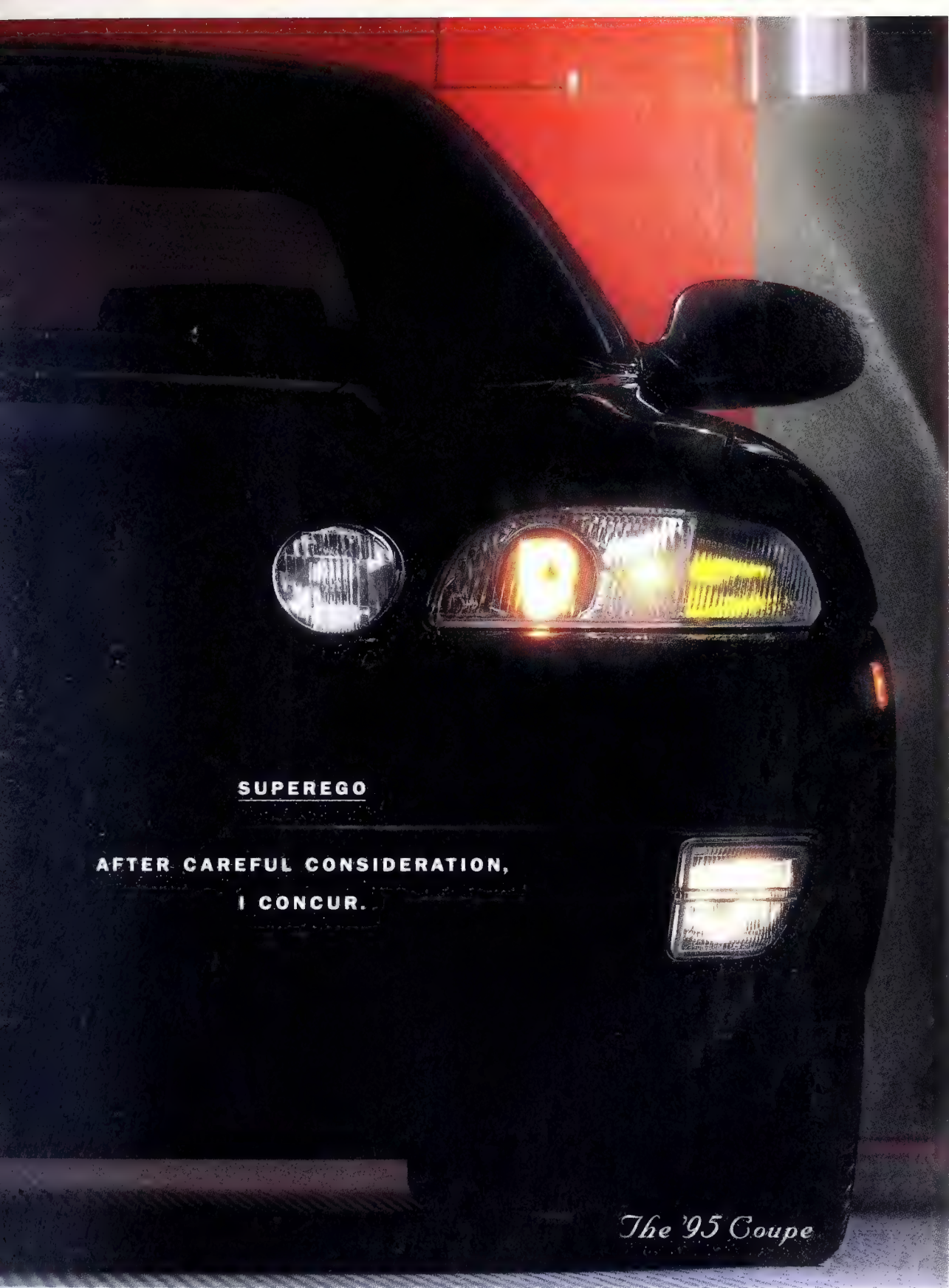




ID  
OH,  
I WANT IT  
I WANT IT  
I WANT IT  
I WANT IT  
I WANT IT.

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THE MIDWEST, WITH ITS NEW FOCUS ON EXPORTS AND A GLOBAL OUTLOOK, NOW LEADS THE NATION IN ECONOMIC GROWTH

## Cover Story

### 116 AMERICA'S HEARTLAND

The Midwest, recently reviled as the Rust Belt, is roaring back. Its manufacturers, including the Big Three auto makers, have turned the tables on their foreign rivals with world-beating products. In another turnaround, state and local officials in the region lead the U.S. in creating innovative, responsive governments. The message for the rest of the nation: Watch and learn

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After a lull, they're back in force

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Labor shortages could return—but  
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Ethan Allen has successfully moved  
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Canada's Peter Munk is out to create  
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In the Midwest, new middle ground



# Up Front

TALK SHOW

When you've been chairman of the [House] Budget Committee and director of OMB, you can withstand anything

—New Chief of Staff Leon Panetta, when asked how he'll handle White House infighting

EDITED BY LARRY LIGHT AND JULIE TILSNER

## SLUGFESTS

### MICROSOFT AND JUSTICE: WORKING IT OUT?



GATES: Window of opportunity

Microsoft's lawyers are talking to the Justice Dept., government sources say—and that raises the possibility of settling the feds'

11-month antitrust probe of the software powerhouse.

The sources are coy about exactly what's on the table. One official says the usual intent of such talks is "to work things out." Still, the sources warn that, since the two sides disagree in many areas, the exercise may go nowhere. Microsoft would not comment beyond saying it is still cooperating.

Justice attorneys in late June deposed top Microsoft officials, including Chairman Bill Gates, sources close to the probe say. This indicates that Justice lawyers are near to deciding whether to recommend that the department sue and on what charges.

Justice has been pur-

suing a broad case on Microsoft's use of its operating-systems dominance to extend control to applications. One recent episode sparking the government's interest: Microsoft's so-called nondisclosure agreements on Chicago, its upcoming Windows product. The agreement barred customers that get early versions of Chicago from working with competitors. In April, Microsoft agreed to loosen the restrictions on WordPerfect.

If current talks between Justice and Microsoft end in a hopeless deadlock, the government may go ahead with civil charges. "If we're at the end of the road with them, we'll file suit," says a government source. "But we're not there yet." *Catherine Yang*

## SKID MARKS

### A GREAT SHOWING FOR GM—CONSIDERING

General Motors is at the bottom of the class again—but gets an "A" for effort. That's from the latest report card on the North American auto industry by Harbour Associates of Troy, Mich. So GM's \$355 profit per car truck sold in 1994's first quarter lagged Chrysler and Ford.

### GM: MOST IMPROVED, STILL LAGGING

| Company  | Profit per vehicle sold in 1 Qtr 1994 | Change since full-year 1993 |
|----------|---------------------------------------|-----------------------------|
| GM       | \$355                                 | +\$1,515                    |
| FORD     | \$656                                 | +\$824                      |
| CHRYSLER | \$1,203                               | +\$1,003                    |

\*COMPANY LOST MONEY IN 1992

DATA: HARBOUR & ASSOCIATES

## STAR POWER

### ROCKY BALBOA, NEW DEMOCRAT

Has Rambo gone soft? Sylvester Stallone, poster boy for the ultratough, anti-communist Republicanism of the 1980s, is the No. 1 political giver among Hollywood performers. And he has sent almost all of it to...the Democrats. Federal Election Commission records show Sly has donated \$70,000 to the Democratic Party since Bill Clinton's election—and

only \$1,000 to the Republicans.

Quite a change. In the 1991-92 election cycle, Sly gave \$36,000 to Republicans and just \$11,000 to Democrats. Why the switch? A Stallone spokeswoman had no comment. Over time, Sly's been a quirky political angel, helping hard-right Republicans (Oklahoma Senator Don Nick-



les) and maverick Democrats (California ex-Governor Jerry Brown).

The other big-money show-biz Democrats eclipsed by Stallone: Chevy Chase (\$42,000), Barbra Streisand (\$31,500), and Dustin Hoffman (\$20,500). Tinseltown GOP givers are more modest: Jimmy Stewart has forked over \$3,360 and Kelsey Grammer, of the *Frasier* TV series, \$2,500. *Richard S. Dunham*

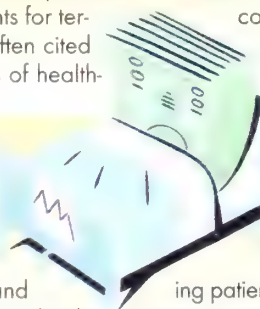
## REALITY CHECK

### HARD-HEARTED PRAGMATISTS SAY

that the U.S. spends far too much on expensive and largely futile medical treatments for terminally ill patients. One number often cited in the media and elsewhere: 30% of health-

care dollars are spent in the last six months of life. It follows that tens of billions of dollars could be saved by eliminating heroic measures for people who are bound to die in any case.

**IN REALITY,** patients in life's last year account for only about 10% to 12% of U.S. health-care outlays. That's a recent estimate in *The New England Journal of Medicine* by Dr. Ezekiel Emanuel and Dr. Linda Emanuel of Harvard Medical School. True, about 30% of Medicare spend-



ing goes for the last year of life—but Medicare covers only people over 65, who have a much higher death rate. Beyond that, it may be hard to reduce spending on dying patients, note the two doctors, because "humane care at the end of life is labor-intensive and therefore expensive." *Michael J. Mandel*

(table). Plus, no GM facility in Harbour's Top Ten most productive North American car and truck assembly plants. And yeah, to be as productive as Ford in assembly, engine transmission, and stamping plants, GM would have to slash about 20,000 white- and blue-collar workers, Harbour says.

Still, it's quite a comeback. In 1989, Harbour said GM needed to let 60,000 employees go to match Ford in manufacturing. This year, seven GM assembly plants made Harbour's list of 10 most-improved plants. GM's companywide average manufacturing efficiency improved 12% since 1992, while Chrysler's gained 6.5%. Ford's was unchanged.

GM has trimmed about \$2,800, pretax, in per-vehicle costs from its operation since 1991, Harbour estimates. That, as much as \$500 cut from white-collar cuts. Perhaps an additional \$350 cut from the benefits of high-volume, Harbour figures—the rest from lower parts costs and nonmanufacturing efficiencies. *James B. Tracy*



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## TALK ABOUT MURDER INC.

**W**orkplace homicides are rising. A new clearinghouse on this grisly subject at the University of Oklahoma B-school finds that 1,000 workers were murdered on the job in 1992, vs. a steady annual average of 600 in the 1980s.

Homicide is now the No. 3 work-related cause of death, behind car crashes and other machinery accidents. (Maladies like heart attacks don't count.) And the leading cause of death for women in the workplace now is foul play: Since 1980, 41% of the females who died

on the job were murdered.

The scourge ranges from aggrieved employees blowing away managers to jilted workplace lovers seeking revenge to lunatics off the street. The biggest risk is in regimented workplaces, such as post offices, where some employees feel they have no control over their work, says Oklahoma B-school Dean Richard Cosier. But also at high risk are retail establishments, open to all.



KILLEEN, TEX. 25 dead in '91

The classic case was the late-1991 massacre of 24 at Luby's Cafeteria in Killeen, Tex. The gunman, who wounded 18 others, killed himself.

Cosier recommends workers be trained so they know what to do when someone with a gun goes berserk: Calm the person down and stall for time. *Douglas Harbrecht*

## GENERATION X

### TAKE THIS MJOB AND SHOVE IT

**C**ampus job recruiters are suffering a generation gap. Boomer-age recruiters, no strangers to conflicts with elders, don't connect with today's college grads. Or so says a new study by New York-based Hanigan Consult-

paying dues and focusing on long-term career growth. But young grads, she says, "assume they will be laid off." So they aren't content to serve time in drone jobs—and want to build marketable skills as quickly as they can.

Employers, says Hanigan, respond: "You short-term-thinking, self-centered kid, you."

These misunderstandings are expensive, since they result in wasted time and money for employers. This past spring hiring season, only 38% of job offers were accepted, down from

60% in 1989. Hiring is way down from the late 1980s, so Hanigan says recruiters are concentrating only on the very top students. Many of this elite group, though, have several offers and can afford to be picky. *Charlie Green*



ing Group of 200 graduating seniors and recruiters from 100 large companies.

Recruiters see Generation X job hopefuls as intent on instant gratification, says Maury Hanigan, head of the firm. The older set stresses

## FOOTNOTES

## DRAWN AND QUARTERED



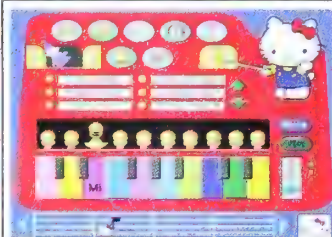
## PRODUCT PEEK

### BUT WHERE'S SUPER MARIO SISTERS?

**T**he bash-'em, slash-'em world of video games has long appealed to boys. Since its release last year, gory Mortal Kombat has sold 5 million units. "There's a fairly ob-

The target thus far is the under-10 group. And to date the major entrant has been Hi Tech Entertainment's Barbie, a beloved toy-chest staple for 35 years. Since her game debut in late 1991, the video doll has sold an O.K. 500,000 units with titles that take her shopping, modeling, and the like.

She's getting company. Big Top is bringing out four educational games on July 1 starring the Hello Kitty character, a feline from Japan where it is a wildly popular cartoon. Kitty (\$24.95 per unit) has been adorning little American girls' lunch pails for years. And just before Christmas, heavyweight Sega Genesis is bringing out several titles meant for girls such as Crystal's Pony Tale, where a pony tries to solve a puzzle. One problem, though: Teenage girls as yet have few games addressed to them.



KID VID: Hello Kitty on the keys

vious gender bias" in the \$6.5 billion-a-year industry, says Jim Myrick, marketing vice-president at Big Top Productions. But now, gamemakers are turning their attention to a neglected market: girls.

## THE BIG PICTURE

JOB LOSSES, BY INDUSTRY  
PERCENT CUT OVER 12 MONTHS  
ENDED APRIL, 1994



## THE ENDLESS RECESSION

While money traders and the Federal Reserve fret about an overheated economy, some workers can be excused if they wonder what all the fuss is about. The industries with the biggest job reductions over the last 12 months:

DATA: LABOR DEPT.

New home construction costs, 1993: **\$122** billion. Home remodeling costs, 1993: **\$108** billion



JUNE 15, 1994

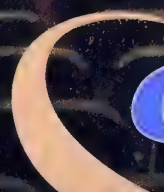
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## KMART'S 'CORRECTIVE ACTIONS'

I would like to clarify a number of points in your Kmart Corp. story, "Revolt? What revolt?" (Top of the News, June 20).

We fully appreciate the frustration Kmart shareholders have experienced over the last 15 months. Probably no shareholder has been more disappointed with the performance than our senior executives and board of directors.

Beginning in 1993, long before the shareholder "wake-up call," we embarked on a hard-nosed evaluation of the specific execution shortfalls hindering Kmart's turnaround. The corrective actions we designed are now being implemented storewide and are far more sweeping than just after-hours restocking. We are rationalizing all vendor relations, shipping merchandise on a two-day turnaround cycle, consolidating distribution for fashions and other lines, centralizing all buying, and addressing the cultural impediments to change.

These actions, and many others like them, are transforming many of the fundamental ways Kmart conducts its business. Over the next two years, they represent \$600 million to \$800 million in profit enhancements.

Where we go regarding specialty retailing will be decided by our board of directors. Whatever action we take, it will be designed to further our core objective—to restore growth to the Kmart stores division. Ultimately, that is the goal shared by all our stockholders.

Joseph E. Antonini  
 Chairman and CEO  
 Kmart Corp.  
 Troy, Mich.

## WELFARE REFORM MUST INCLUDE CHILD SUPPORT

Your article "A four-step plan to reform welfare" (Editorials, June 13) was right on target in noting time limits, job training, day care, and state experimentation as critical elements. I would like to add one more—child support enforcement.

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Whether married, divorced, or single both parents have obligations for their child's support. Yet the gap between what noncustodial parents should pay and what they actually do pay has been estimated at \$34 billion.

Ensuring that parents—both parents—assume responsibility for their children is a vital component of welfare reform. For this reason, I have introduced legislation that would strengthen collective efforts across state lines and improve procedures for establishing paternity. As we encourage people to move from welfare to work, let's ensure that the children benefit.

Barbara B. Kennelly (D-Conn.)  
 House of Representatives  
 Washington

## IBM STANDS BEHIND AIX AND TALIGENT

There is no doubt about the future of AIX, IBM's UNIX operating system, IBM's investment in Taligent and its object-oriented technology, contrary to what was suggested in your article "It rides into Microsoft country" (Information Processing, June 6).

AIX, which supports IBM's RISC System/6000, POWER Parallel, and system using our PowerPC microprocessors, is an integral part of the workplace strategy. IBM is fully committed to Taligent and we are actively incorporating object technology into our existing operating systems, such as OS/2 and AIX. Taligent is progressing on time, and we are pleased with the progress that has been made.

Both technologies are part of IBM's plan to revolutionize the way we do our customers use and develop software.  
 L. R. Reiswig  
 President  
 IBM Personal Software Products Division  
 Somers, N.Y.

## FILLING SOME GAPS IN THE OZONE-HOLE CONTROVERSY

Paul Craig Roberts, in his column "What's flying out the ozone hole" (Billions of dollars) (Economic Viewpoint, June 13), makes several misleading



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## Anybody Seen Gomer Around Here?

Scott Robertson told his friends he was moving to Birmingham. And they told him he'd lost his marbles. Because to them, Alabama meant Gomer Pyle or the Beverly Hillbillies – not the kind of place a corporate man would leave Washington, D.C. for to further his career. But to Scott, Alabama meant a great opportunity. So he figured he would at least give it a year. That was in 1979.

“As I've traveled, I've learned everybody has an Alabama story. Not about racism, pollution, or the Gomer way of doing things. But about friendly people, gorgeous countryside, and phenomenal cultural experiences. And if they'd actually lived here, the story is usually about how much they loved it and want to move back. My story's about how I had to drag my wife here kicking and screaming.

Yet now I could never get her to move north of downtown Birmingham.”

Scott believes the only problem Alabama has is persuading prospects to come here. But once here, they become hooked and never want to leave.

ALABAMA HAS ONE OF THE  
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OF REGISTERED ENGINEERS  
IN THE NATION.

Maybe that's because, according to Scott, Alabama is an “island in the sea of chaos.” BE&K, where Scott is Vice President of Communications, has certainly prospered, having been ranked as one of the top 25 engineering firms and one of the 100 best companies to work for in the entire country. While in the Alabama business market, BE&K is recognized for having achieved a strong presence around the world. And we think that's about as far from Mayberry as you can get.

ALABAMA

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# Readers Report

sections regarding the transition away from ozone-depleting substances. By exaggerating the costs and misstating scientific understanding, he creates the very hysteria he accuses others of encouraging.

For example, Roberts claims that minor repairs to car air conditioners "can now cost as much as \$1,000." In fact, the initial retrofit kits that several auto makers developed cost \$100 to \$150. Cars bought recently and in the future will not need any retrofit, since they already contain HFC-134a. Car owners should note that they are not required to stop using the original refrigerant.

Roberts quotes scientists as saying that there has been no evidence of ozone depletion or increases in ultraviolet light (UV) outside seasonal effects over Antarctica. This contrasts with the latest assessment by the world's most distinguished atmospheric researchers, which states that in addition to winter depletion, "for the first time, there is evidence of significant decreases [in ozone] in spring and summer in both the Northern and Southern hemispheres." The assessment took into account natural variations in ozone concentration, including volcanic eruptions, seasonal changes,

## CORRECTIONS & CLARIFICATIONS

"Clinton's 'Buy American' pitch keeps paying off" (Top of the News, May 23) should not have said that President Clinton, in a 1994 meeting, urged Kazakhstan President Nursultan Nazarbayev to allow Chevron Corp. to participate in oil-field development. Chevron's deal to help develop oil fields in Kazakhstan had been struck in April, 1993.

sunspots, and latitudinal effects, and depletion is still evident. The world's nations would not have agreed to such a rapid phaseout of ozone-depleting compounds without such strong evidence.

Jeffrey Levy

Refrigerants Analyst

U.S. Environmental Protection Agency  
Washington

**P**aul Craig Roberts misrepresents the 1992 findings issued by NASA and NOAA. Scientists disclosed record-high levels of chlorine monoxide in the stratosphere over North America. Given the proper meteorology, the northern atmosphere was primed for record ozone de-

pletion. (A warmer-than-normal winter held ozone depletion in the Northern Hemisphere to levels consistent with previous years. The winter of 1993 saw the same chemistry and worse ozone depletion as the upper atmosphere stayed colder longer.) At no time was the ozone hole predicted. The connection between CFCs and ozone depletion is clear.

Charles F. Kenney

Associate Administrator  
for Mission to Planet Earth

National Academy of Sciences  
Washington

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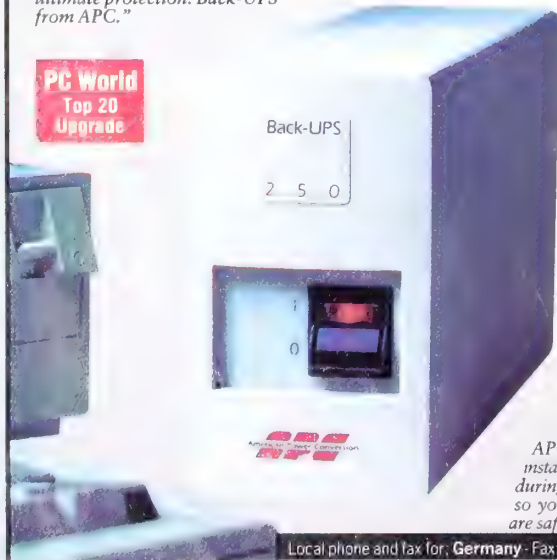
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# THE PAPERBACKS OF SUMMER

**V**acation time, and the reading's easy—thanks to those uninterrupted hours on the beach or the screened porch. Sure, you could do worse than spend an afternoon with John Grisham or Robert Ludlum. (You could read Robert James Waller!) But why not use those long stretches to catch up on more serious books you haven't gotten around to? Here's a sampling of recent paperbacks you might want to pack.

Some of the season's most compelling reads probe the astonishing geopolitical shifts of the last few years. David Remnick won a Pulitzer Prize for **Lenin's Tomb: The Last Days of the Soviet Empire** (Vintage, \$14). And no wonder. His account of Soviet communism's collapse is marked by pathos and humor, keen reporting, and deep understanding of Russian and Soviet culture. Why did the Soviet monolith come undone? Once Mikhail Gorbachev unleashed *glasnost* and the evils of communist rule became widely known, Remnick concludes, the empire could not endure. The paperback includes a new afterword.

For another ground-breaking view of communism's fall—this one from within the Oval Office, the Kremlin, and the Pentagon—try **At the Highest Levels: The Inside Story of the End of the Cold War** by Michael R. Beschloss and Strobe Talbott (Back Bay Books, \$12.95). It captures the way then-President George Bush's growing political and personal attachment to Gorbachev affected policy. A new epilogue examines the relationship between Presidents Bill Clinton and Boris Yeltsin.

In **Balkan Ghosts: A Journey Through History** (Vintage Departures, \$12), Robert D. Kaplan blends a vivid travelogue with a quest for the roots of ethnic hatreds. For many Serbs, Croats, and Bosnians, he shows, ancient battles mean as much as the Soviet Union's demise. And rape and ethnic cleansing have long marked the region's warfare.

The human dimension of the madness engulfing the former Yugoslavia is also conveyed in **The Balkan Express: Fragments from the Other Side of War** (Harper Perennial, \$11) by Slavenka Drakulić, a Croatian. Her heartbreaking vignettes evoke the horror of the conflict better than any dispatch from the front. The paperback includes five new essays.



In **Around the Cragged Hill: A Personal and Political Philosophy** (Norton, \$12.95), George F. Kennan, Washington's former envoy to Moscow, turns his attention homeward to examine his country and himself. It's no surprise that Kennan, now 90, is struck by how much U.S. society has changed. What's arresting is how little he likes of what he sees as a culture less and less tolerant of the viewpoints of others. This is a fond and rueful farewell to a place

and time changed out of all recognition. There's also a fresh crop of biographies in softcover. Readers of William Shawcross' **Murdoch** (Touchstone, \$13) will discover that Rupert Murdoch's current Fox network drive is just one more not-so-surprising turn in the media baron's pursuit of a global empire. Shawcross gives us Murdoch as opportunistic, cajoling, conniving, and bullying his way to ownership of many of the world's choicest media properties.

**Rivers in the Desert: William Mulholland and the Inventing of Los Angeles** by Margaret Leslie Davis (Harper Perennial, \$13) profiles the turn-of-the-century power broker who brought distant mountain water to a young and thirsty Los Angeles. From his buckboard trip to the remote Owens Valley to buy water rights from unsuspecting farmers, to his maniacal drive to complete the Los Angeles aqueduct, Mulholland presided over one of the century's great engineering feats. Along the way, he overcame financial catastrophe, mutinous workers, and family tragedy. His success made him rich—and made possible the city's reckless, unbridled growth.

Another engrossing story is James Gleick's **Genius: The Life and Science of Richard Feynman** (Vintage, \$14), a biography of the legendarily idiosyncratic Nobel physics laureate, who died in 1988. Thanks in large part to Feynman's outsized personality, Gleick manages to communicate arcane scientific material in an entertaining fashion.

Speaking of arcane science, if you're confused by news stories about the quest for genetic cures for disease, pick up **Exploding the Genetic Myth** by Ruth Hubbard, a Harvard University professor emerita, and Elijah Wald (Beacon Press, \$12).

While warning that many findings are overhyped, the book explains enough biology and genetic theory to let you evaluate what you read. It also explores the social implications of genetic testing: schools, the workplace, and by doctors and insurers.

Given the explosion in "edutainment" software for children, this is a good time for a look at **The Children's Machine: Rethinking School in the Age of the Computer** (Basic Books, \$12). Computers in schools, says Massachusetts Institute of Technology professor Seymour Papert, have so far been too slow and misapplied. But engaging, interactive



software that lets children explore  
ledge at their own pace can bring  
ation in line with the way kids

men **The Age of Diminished Expecta-**  
by MIT economist Paul Krugman,  
published in 1990, it was praised  
s readable, even enjoyable, prose.  
was Economics 101 made relevant  
day's world and laced with irrever-  
sides. Now, Krugman has updated  
analysis of U.S. economic policy with  
roduction linking President Bush's  
o simmering dismay over the eco-  
slowdown, along with new chap-  
on European monetary affairs and  
n care (MIT, \$12.95).

more extended analysis of the eco-  
roots of Bush's defeat is contained  
**tiling Point: Republicans, Democrats**  
**the Decline of Middle-Class Prosperity**  
evin Phillips (Harper Perennial,  
Phillips, too, sees resentment over  
economy as the key to Bill Clinton's  
y. Revitalizing the economy could  
the Democrats the keys to the  
e House for years, says Phillips.  
wise, Clinton "can be destroyed by  
ame angry electorate."

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EDITED BY STEPHEN H. WILDSTROM

## FOR TRAVELERS, IT'S A DATA DIRT ROAD

In the decade since truly portable computers hit the market, the machines have become substantially more useful, while their weight and cost have plunged. But when it comes time to communicate with the office, portable computing can be exceedingly difficult. Most travelers with computers would cheerfully forgo the promise of the Information Superhighway if they could just get a decent

long-distance access numbers. Many's the time that the vagaries of hotel phones, inadequate software, and long-distance access codes have forced me to give up and use the hotel fax instead.

To make matters worse, shortcomings in a phone system built for voice calls often keep modems from transferring data at anywhere near their advertised speed. And some programs, such as

tions, V.34 allows communications at 28,800 bits per second (fast enough to transmit a single-spaced typed page in little more than a second). But perhaps more important for travelers, the standard was designed to adapt to less-than-ideal phone lines and to work over cranky hotel phone systems.

**DIGITAL DELIVERANCE.** Getting the full benefit of the new modems requires one of them at each end of the line. But their use could spread quickly: Motorola Inc. Vice-President Ross Seider expects the new units to be available at the cost of current 14,400-bps modems—\$200 to \$400—by yearend.

Digital phone service may also improve matters, but it's further away. Eight years after it was first rolled out, the Integrated Services Digital Network is finally—and slowly—becoming a reality. Unlike the existing analog phone system, ISDN was designed from the ground up to handle data—at speeds of 64,000 bits per second and up. But even ISDN boosters admit that it's likely to be several years at least before your hotel room's phone

hookup is digital.

In the meantime, AT&T is working to provide relief for traveling executives whose offices use Novell NetWare or Lotus Notes networks. By the end of the year, the telephone giant plans an easy way to let companies link their local-area networks to branch offices. Also in the plan is a dial-up service that would allow a traveler to log in to a home network by making a local call—avoiding the complexities of long-distance circuits and fidgety remote-access network software.

"We're trying to make data as easy as voice," says AT&T Vice-President Erik Grimmelmann. That's a goal to gladden the hearts of business travelers. Too bad it can't be achieved faster. S.W.



two-lane data blacktop today.

Some things have gotten better. In most hotels, you no longer have to attack the phone with a screwdriver to hook up your laptop with alligator clips. And even in the most out-of-the-way areas, you're unlikely to run into a phone line so bad that it's unsafe for data at any speed.

**NO-TEL HOTEL.** Still, many facets of computer communications remain far harder than they should be. Data jacks on public phones are rare. When you plug your computer into that inviting modular jack in your room, you may find that your modem can't deal with the hotel's digital switchboard. Communications software is another headache. Many programs offer no simple way to handle credit-card calls or

cc:Mail, aren't smart enough to restart a file transfer where it broke off when a bad line killed the connection.

The growing demand for more and better services is beginning to have an impact. Local phone companies are upgrading their systems. Doug Humphrey, president of Digital Express Group, a Greenbelt (Md.) provider of Internet services, says phone companies are gradually fixing problems that give data transmissions fits but that were tolerated because there was little or no effect on voice calls.

Better modems also offer hope for relief soon. In June, the International Telecommunication Union approved a new standard for modems called V.34. Under good condi-

## BULLETIN BOARD

### READER'S QUERY

#### IS IT OBSOLETE ALREADY?

Will the mass movement of computers into homes be stymied by consumers' fears that whatever they buy will instantly be out of date? Reader Lee C. Good of Dallas wonders, is technology changing so fast that "the cart is going downhill faster than the



horse?" There's some truth to the computer industry adage that if you can buy it off the shelf, it's obsolete. The Pentium chip is the hottest thing around in the Windows world, but the Intel P6 is lurking in development.

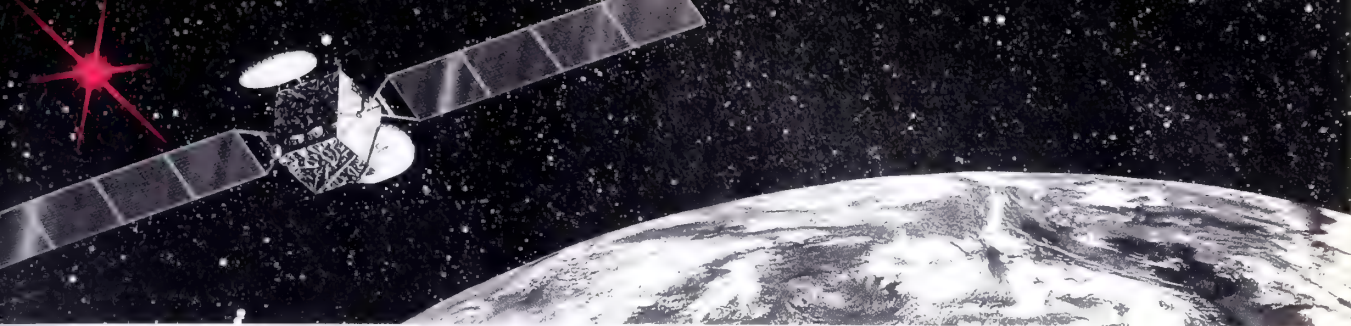
The real question is, who does "obsolete" mean to the consumer? Millions of computers based on Intel's granddaddy 80386 chip are still doing the jobs they were bought for by consumers and businesses. Something newer and faster will always be on the market, but buyers of today's PCs can count on several years of use before new software becomes more than their machines can handle.

### LAPTOPS

#### EVER SVELTER

The war of laptop lightness goes on. On June 20, NEC moved to the front of the pack, at least for the moment. Its new Versa S full-size notebooks feature a 9½-inch display and weigh in at a sub-notebook-like 4.2 pounds (the monochrome version). Versa S prices range from \$1,999 to \$3,899, depending on the display and storage options chosen.





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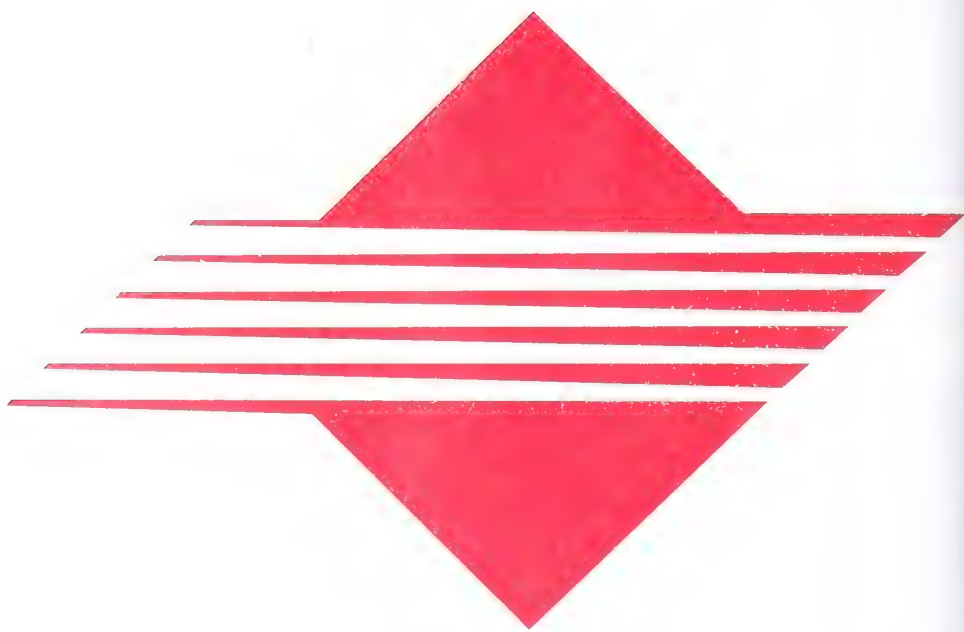


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# DEVELOPMENT BANKS: AN IDEA WHOSE TIME HAS GONE

BY PAUL CRAIG ROBERTS



Rather than continue to fund bankrupt statist economic policies, the World Bank, the IMF, and the IDB should write off their losses, salvage what they can, and shut their doors forever

The various efforts that continued through two Republican Administrations to protect the face value of Latin American debt came to an end in 1989. In that year, J. P. Morgan & Co. sank the Brady Plan, successor to the Baker Plan, by reserving 100% against its nontrade-related Latin American loans. This write-off made it clear to the Federal Reserve and the Treasury what had been obvious for years: The full value of the debt would never be repaid.

On the heels of this action, other large lenders, such as Chase Manhattan Bank and Citibank, gave up the ghost on their debt and began putting aside hefty reserves against their large Latin American portfolios. A great sigh of relief was heard from those who were fearful that the various bailout plans based on lending more money to pay interest would ultimately end in the failure of the money center banks, requiring a massive taxpayer bailout.

This new realism about Latin American debt has not spread to the practices of the development banks, such as the World Bank and the Inter-American Development Bank (IDB), which still carry their portfolios at book value. To keep their portfolios current, the international lending agencies continue to violate sound banking practices by lending the countries more money so they can keep up their interest payments.

**MONEY HOLES.** It is difficult to see how the World Bank can carry its loans at face value when its commercial bank partners in co-financing have had to write down their portfolios. The World Bank's policy is especially puzzling in view of its own analyses, which show that only a fraction of the projects financed with the loans are deemed to be successful.

Two recent World Bank reports show that projects it has financed are failing at a rate that would quickly lead to bankruptcy if the institution were a private commercial bank. The February, 1992, report, *Evaluation Results for 1990*, assessed 359 projects in all economic sectors at completion of World Bank funding, representing investments of some \$43 billion. The report found that 36% of the projects had failed by the time their funding was completed, and only half of the remaining 64% would survive over time. In other words, the report projected a success rate of only 32%.

The following year, project performance was even worse. *Evaluation Results for 1991*, released in March, 1993, evaluated 278 projects involving total World Bank investments of more than \$32.8 billion. It concluded that 37% of the projects had failed by the time funding

was completed. The report estimated that only 42% of the remaining 63% would survive over time. Thus only 26% of the projects were deemed to be successful.

The March, 1993, report noted that the 1992 results were part of an "overall downward trend in project performance" that had been observed over the previous two years. The report also pointed out that lending to the World Bank's best customers in Asia is declining while lending to Africa, the poorest performer overall, is increasing.

**POINTLESS STRATEGY.** The Inter-American Development Bank's portfolio is as shaky as the World Bank's. In 1994, the IDB asked for and received an expansion of taxpayer guarantees that boosted its capital by \$40 billion, to \$101 billion. This large percentage increase was necessary in order to maintain a \$6 billion per year lending level. Obviously, the IDB's lending process is not self-financing. Moreover, the IDB plans to dispense 40% of its new lending for social purposes and allocate 35% to smaller Latin American countries. In other words, the IDB is expanding its portfolio in the least creditworthy areas.

In the postwar era, the World Bank, the IDB, and, more recently, the International Monetary Fund have assumed the role of lending to governments to keep afloat government-designed development schemes. But the statist development-planning approach has been discredited. It has been abandoned, first in Chile, then in Mexico and Argentina, and now in Peru—and these nations enjoy great success in attracting private foreign investment.

It is pointless to pursue a failed strategy. The development banks should be privatized or closed down. This can be done by selling their portfolios in the secondary market and redeeming whatever percentage of their own outstanding bonds that the proceeds will permit. The governments that provide the guarantees of World Bank bonds can make up the difference.

Alternatively, the development banks can swap their loans for equity in state companies that are slated for privatization in the borrowing countries and turn themselves into private investment companies owned by their former bond holders. Normally privatization raises the value of assets. Thus with successful debt-equity swaps, the development banks may be able to avoid falling back on taxpayer guarantees.

Either alternative makes more sense than continuing to maintain at taxpayer risk institutions whose approach to economic development is doomed to failure.

PAUL CRAIG ROBERTS IS JOHN M. OLIN FELLOW OF THE INSTITUTE FOR POLITICAL ECONOMY AND DISTINGUISHED FELLOW OF THE CATO INSTITUTE IN WASHINGTON, D.C.



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BY GENE KORETZ

## AMERICA'S TRADE GAP WITH JAPAN MAY SHRINK—TEMPORARILY

**C**olor the U.S.-Japanese trade outlook bright over the short term, dark over the long term. Japan's total trade surplus in volume terms has been shrinking since mid-1993, and in dollar terms, it was down nearly 16% in May from May, 1993. Were it not for a surge in demand for Japanese products caused by America's robust expansion, Japan's surplus with the U.S. would already have started to shrink, experts say.

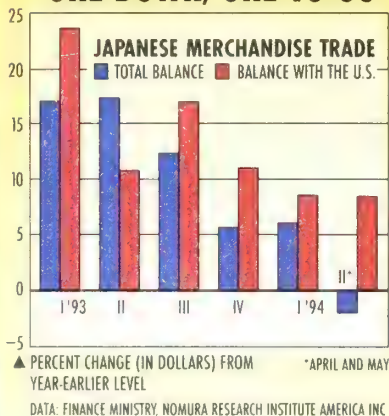
As the U.S. economy slows later this year and the Japanese recovery gathers steam, the betting is that the high-flying yen will erode the appeal of high-priced Japanese exports in the U.S. and whet

labor costs in yen have risen even more slowly. And relative U.S. productivity gains have been concentrated in the 1990s, when Japan's recession has hurt worker output, even as America's upturn has enhanced output. Once Japan recovers, these trends will reverse.

Meanwhile, on the price front, Ueno notes that U.S. domestic inflation has consistently outpaced Japanese inflation, making it difficult for U.S. manufacturers to maintain their competitiveness in the absence of dollar depreciation. Moreover, U.S. consumers are far more responsive to price drops in Japanese goods than Japanese consumers are to price declines in American goods. Ueno also calculates that U.S. demand for Japanese products tends to rise nearly 3% for every 1% rise in gross domestic product, whereas Japanese demand for U.S. products rises only 1.4% for every 1% increase in its GDP.

The bottom line is that once near-term cyclical effects fade, the U.S.-Japanese trade gap is likely to start widening again even if the dollar stabilizes at 100 yen. Only structural changes, such as opening up Japan's distribution channels to U.S. products, says Ueno, offer hope of achieving more balanced trade over the long term.

### JAPAN'S EBBING SURPLUSES: ONE DOWN, ONE TO GO



the appetite of Japanese consumers for low-priced U.S. goods. And once Japan's trade surplus with America begins to decline, the yen is likely to follow suit.

The problem, says economist Daisaku Ueno of Nomura Research Institute America Inc., is that any narrowing of the U.S.-Japanese trade gap is unlikely to last. Indeed, basic economic trends, he warns, suggest that the Japanese surplus could widen again without continued dollar declines.

Ueno concedes that Japanese unit labor costs in manufacturing measured in dollars are up 125% relative to such U.S. costs since 1980. But he estimates that almost all of that rise is due to dollar depreciation against the yen. Only 10% or so reflects a relative improvement in America's economic fundamentals.

For example, while U.S. wage hikes over the years have been low, Japanese

In 1936, John Maynard Keynes noted that a transaction tax would strengthen the weight of long-range fundamentals, stock-market pricing and would reduce the influence of speculators trying to guess what other speculators were about to do. Tobin thinks a worldwide tax on currency transactions could do the same.

How big a tax? Tobin says a 0.05% bite would produce \$150 billion a year in revenues, which could be used to support the work of international institutions such as the World Bank and the U.N. Even a tax one-tenth that size would produce \$15 billion and significantly dampen the actions of speculators who move in and out of currencies daily on the basis of minuscule margins. And speculators who weren't intimidated, he adds, "would at least contribute to the world community."

## THE JAPANESE ARE STILL UNLOADING U.S. REAL ESTATE

**A**merica's commercial real estate market is finally showing signs of strength. But Japanese investors, who spent up \$75 billion for U.S. commercial real estate in the late 1980s, are in a selling mood. In a recent poll of big Japanese investors by accounting firm Kenneth Leventhal & Co., about two-thirds of respondents said they intended to sell some of their U.S. property this year. The firm expects to see \$3 billion to \$4 billion in Japanese sales this year, up from \$2.6 billion in 1993, with office buildings and hotels first on the block.

## RELAX, INVESTORS. CORPORATE INSIDERS ARE STOCKING UP

**W**all Street may be in the throes of a bear market, as many observers believe, but the actions of those closest to the fire—trades by executives in the stocks of their own companies—believe this theory. According to *Vickers Weekly Insider Report*, its eight-week Sell/Buy ratio is at its most optimistic level since early 1991. History shows that whenever the ratio of insider sales to insider purchases falls below 2.25, a rising market usually follows. And it's now at 1.04, which means insiders are making as many purchases as sales.

"The market's recurring malaise is creating opportunities," says David Coleman of *Vickers*, "and top management is taking advantage of them."

## WOULD A TAX ON CURRENCY SPECULATORS CALM THE MARKETS?

**W**hatever the values of currencies dictated by today's economic fundamentals, the recent chaos gripping foreign exchange markets seems more an expression of speculative fever than a response to economic developments. The episode illustrates how easily speculative forces can seize control of the currency markets, frustrating central banks and threatening to undermine the dollar—and the incipient global expansion.

Is there a better way? In the U.N.'s 1994 *Human Development Report*, Nobel laureate James Tobin of Yale University reiterates a proposal he made 15 years ago: Impose a small tax on international currency transactions.

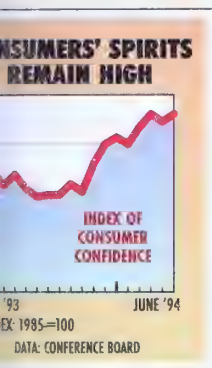
Only a tiny fraction of the \$1 trillion or so a day in such dealings is needed to allocate world savings efficiently, Tobin argues. The rest, he says, mainly reflects speculative efforts to make quick money on exchange rate fluctuations and interest-rate differentials. Such speculation distorts the signals that exchange rate markets give for long-range investment and trade and impedes the actions of central banks.



## DOLLAR DOLDRUMS ALONE WON'T FORCE THE FED TO TIGHTEN

There's an old rule in currency intervention: Don't try to row upstream. On June 24, the Federal Reserve and 16 other central banks spent more than \$3 billion trying to prop up the U.S. dollar against market forces determined to send it the other way. As usual, the market won.

Coming off this failed effort amid stubborn dollar weakness and its depressing influence on U.S. bond and stock markets, the Fed's policy-making committee will sit down on June 25-26 to plot monetary strategy. The popular question is: Will the Fed have to raise interest rates in order to prop up both the greenback and sagging investor confidence in U.S. securities?



If the trends in the data are any indication, such a move seems unlikely—if not foolhardy. The numbers continue to show that economic growth is already slowing down, a point that was clear in the central bank's own regional survey prepared for its upcoming meeting. In addition, inflation prospects remain reassuring, as Fed Chairman Alan Greenspan himself noted in his congressional testimony on June 22.

The latest evidence of these trends: Sales of existing homes dipped in May, and while purchases of new homes rose that month, sales seem to have peaked. Consumers feel confident (chart), but rising rates and low savings temper the boom in durable-goods purchases. Indeed, new orders for such goods posted a tepid gain in May, with bookings no higher than they were in January. At the same time, inflation news has improved. Oil prices are down about \$1 per barrel since mid-June, and commodity prices have retreated from their recent highs, while surging coffee prices caused by frost in Brazil.

### STRONG MEN IS PAN'S PROBLEM

Besides, where interest-rate policy is concerned, the Fed just doesn't place that much importance on the dollar. It never has. The central bank has always given priority to domestic issues such as growth and inflation. If the Fed judges that inflation control does not require higher rates, then it will not act solely to buoy the dollar's currency. Such a bold cure could even cause more harm than good by admitting that a disease exists. In fact, economic

fundamentals in the U.S. right now should be more supportive of the greenback. The dollar's weakness has been narrow, focused mainly against the Japanese yen and the German mark. Even there, the decline has been orderly.

Moreover, the dollar-yen relationship looks increasingly more like a problem for Japan than for the U.S. The strong yen presents tough problems for Japanese exporters, and on June 29, the yen hit a new high after the selection of a Socialist Prime Minister, Tomiichi Murayama. The vote decreases the chance for deregulation and economic stimulus needed to reduce Japan's huge trade surplus, the major reason for the yen's strength.

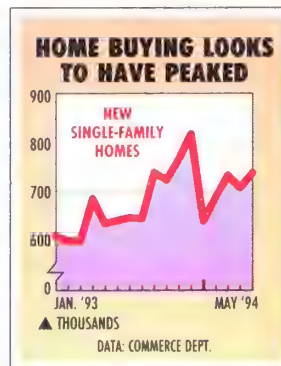
Against this backdrop, the Fed seems most likely to put off any rate hike until its August meeting, if then. The policymakers are still monitoring the impact of the large half-point hike on May 22, along with that of previous increases. Another rate boost in the face of moderating growth and tame inflation would risk looking like overkill, only feeding growing tensions between the Fed and the White House.

### THE MONEY NUMBERS APPEAR WEAKER

Although the effect of past Fed tightening, which began on Feb. 4, is only now beginning to show up in the economy, the impact is clear enough from the monetary data. In particular, bank reserves—the basis for money creation—have fallen at an annual rate of 7.2% since early March. Not surprisingly, the narrow M1 money supply has flattened out since early April, after growing at a 7% annual clip during the previous six months.

Moreover, growth in the broader M2 measure of money has fallen back to the bottom of the Fed's 1% to 5% target range. That's significant, since you can no longer blame huge shifts of funds out of M2 and into mutual funds for that slowdown. Flows into stock and bond funds have fallen off sharply this year. The weaker money numbers strongly suggest that Fed tightening has already set up monetary conditions that often foreshadow slower economic growth.

The No.1 casualty of the Fed's tightening is housing. Clearly, home buying and building are in no danger of a slump, but housing's biggest contributions to this expansion are history (chart). Sales of new single-family homes





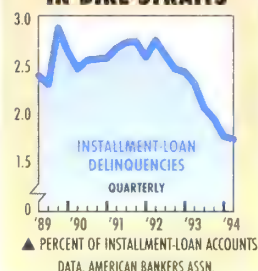
rose 4.2% in May to an annual rate of 738,000, but the second-quarter tally is well below the pace in 1993's fourth quarter. The same is true for sales of existing homes, which fell 0.7% in May to a 4.09-million annual rate.

That fourth-quarter peak is unlikely to be regained now that 30-year fixed mortgage rates are averaging 8.65% for the week ending June 24. The Mortgage Bankers Assn.'s tally of mortgage applications for home purchases is down sharply. In mid-June, it hit a 1½-year low.

## MORTGAGE REFINES HAVE ALL BUT DRIED UP

Still, housing has its supports. The Fed's interest-rate hikes since February appear to have had no appreciable impact on consumers' spirits, which have been buoyed by better job growth. The Conference Board's index of consumer confidence rose to 92 in June, up from 88.9 in May. For the entire second quarter, confidence was the highest in almost four years.

## FEWER HOUSEHOLDS IN DIRE STRAITS



Better feelings about jobs and incomes are helping to offset some of the impact of higher rates by giving consumers more confidence to take on more debt. But at the same time, the cost of carrying that debt has fallen to the lowest percentage of after-tax income in a decade, and problem loans are down.

In the first quarter, the percentage of bank consumer installment loans with overdue payments fell for the eighth straight quarter to a 20-year low of 1.74%, says the American Bankers Assn. (chart). The lowest delinquency rate: the popular open-end home-equity lines of credit.

But despite consumers' better finances, higher rates will take a toll on consumers and manufacturers. That's because their biggest impact will be on the demand for rate-sensitive durable goods, especially since those items

were the main beneficiary of 1993's refinancing windfall.

Now, however, the Mortgage Bankers Assn. also says that refinancing activity has all but dried up. Its index of mortgage applications for refinancing has plummeted 9% from 1,547.3 last October, when mortgage rates hit the low point, to 133.7 in early June.

Buying plans for rate-sensitive items are indeed down, says the Conference Board. Its June survey also shows that plans to buy autos fell for the second month in a row and that interest in major appliances was weaker. Home buying intentions are declining, as well.

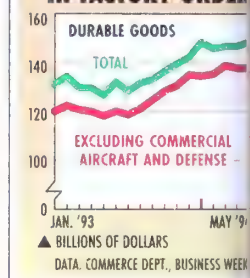
Those scaled-down plans are showing up in manufacturers' order books. Orders for durable goods rose 0.9% in May, after a slim 0.1% gain in April. Excluding commercial aircraft and defense, two small and volatile sectors, bookings barely rose in May, and they are well below the March level (chart).

With more and more signs of slower growth and with any obvious inflation pressures still absent, the Fed will be hard-pressed to rationalize another rate hike at its July meeting, especially so soon after a half-point hike in both the discount rate and the more important federal funds rate.

As for the dollar, a small boost in rates would do little to alter the underlying reasons for the dollar's weakness. It will not reduce Japan's trade surplus, it will not shrink America's current account deficit, and it will not restore lost international confidence in the Clinton Administration.

Rather than lift rates, the Fed is most likely to continue its intervention efforts when it deems such action necessary as an international show of support for the currency—even though the attempt is often little more than a crapshoot.

## A BROAD SLOWDOWN IN FACTORY ORDER



## THE WEEK AHEAD

### VEHICLE SALES

Wednesday, July 6

Sales of U.S.-made cars and light trucks in June are expected to have totaled 12.4 million units, at an annual rate, according to the median forecast of economists surveyed by MMS International, a unit of McGraw-Hill Inc. That pace would be below May's 12.6 million rate, which was less than the 13.1 million April pace. Cars likely sold at a rate of 7 million, about the same as in May, while the pace of light truck sales probably dipped to 5.4 million from 5.5 million in May. Some of the slowdown in car buying since the March peak of 13.5 million reflects low inventories of popular

models. That's especially true for certain sports utility vehicles, passenger vans, and pickups.

### EMPLOYMENT

Friday, July 8, 8:30 a.m.

Nonfarm industries are projected to have added 225,000 workers to their June payrolls, says the MMS survey. That gain would be larger than the 191,000 increase in May. In addition, the economists expect the unemployment rate to have risen to 6.2%, after falling sharply in May to 6% from 6.4% in April. Manufacturing payrolls probably edged up by 10,000 workers, and average hourly earnings likely grew a modest 0.2%.

### INSTALLMENT CREDIT

Friday, July 8

The May level of consumers' outstanding installment debt, mainly auto loans and credit card balances, is expected to have climbed by \$5.9 billion, says MMS. The increase would follow an \$8.9 billion surge in April. Households have been expanding their debt rapidly in recent months as job prospects brightened and consumer confidence strengthened. However, debt as a percentage of after-tax income has not climbed appreciably, and the monthly cost of carrying those loans as a share of income is falling. Still, credit growth may slow as the spending boom in consumer durables cools off.

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JULY 11, 1994



# PRESSURE POINT

## CAN CLINTON REGAIN GLOBAL ECONOMIC CREDIBILITY?



When leaders of the world's seven leading industrial nations gather in Naples July 8-10 for their annual economic summit, Bill Clinton will be in the spotlight. But not quite the way he planned. The meeting at the foot of Mt. Vesuvius was supposed to be an occasion for the President to accept accolades for his economic achievements: turning the U.S. economy into the envy of the world, winning passage of a North American trade pact, and completing a new global trade deal.

Instead, an eruption of unsettling news threatens to bury the triumphs Clinton wants to trumpet to his counterparts from Japan, Germany, France, Italy, Britain, and Canada. A White House staff shakeup, setbacks in trade talks with Japan, and a falling U.S. dollar threaten to cast the President as a weak leader with tenuous sway over the

economy. Some experts worry that market tremors could undermine the U.S.'s stellar growth—and Clinton's stature among world leaders.

The White House response to the diving dollar has heightened these fears. To critics, the unsuccessful attempts to stop the dollar's slide were, well, Clintonesque—marked by flip-flops and internal indecision. For months, top Administration officials seemed content to see the dollar plummet against the yen as a way to shrink the trade deficit. In May, and again on June 24, the Administration intervened with the help of foreign central banks to prop up the buck. But even participating bankers questioned whether the effort would work. Indeed, on June 28, the dollar closed below 100 yen for the first time since World War II, dragging stocks down with it (charts). The Treasury Dept.'s response "has been relatively poor," says Wall Street economist Henry Kaufman.

To be sure, Clinton has his defend-

ers, including many Europeans who believe the markets are judging him harshly. Some economists believe investors are overreacting to the prospect of stronger growth in Germany and Japan by pulling funds out of U.S. markets. Others believe the currency markets are responding to real economic factors—such as a widening U.S. current account deficit—and do not signal a loss of confidence in Clinton. The market turmoil "has much to do with economic fundamentals and less to do with [Clinton's standing]," says Robert D. Ehmats, vice-chairman of Goldman Sachs International Ltd.

**FUNDAMENTAL SPLIT.** The President himself, in an exclusive presummit interview with *BUSINESS WEEK*, argues that currency traders are misjudging his performance (page 37). "We think that the fundamental strength in our economy is something that should inspire confidence," the President says.

Still, the market turmoil is creat-



## CLINTON'S ECONOMIC OBSTACLE COURSE

**MIT** Finance ministers will discuss the G-7 summit July 8-10 in Naples. Markets are watching for signs that Clinton can take a hard line on global economic policy.

**RESERVE BOARD** Traders are pressuring the central bank to bolster the dollar by raising interest rates at its July 5-6 meeting. But with economic growth slowing to 3.4% or so, the Fed may be reluctant to act now.

A soaring U.S. trade deficit and a failure to pry open Japan's markets have vexed currency traders. The U.S. had to break an impasse in trade talks before the G-7 meeting, but political turmoil in Japan has clouded prospects.

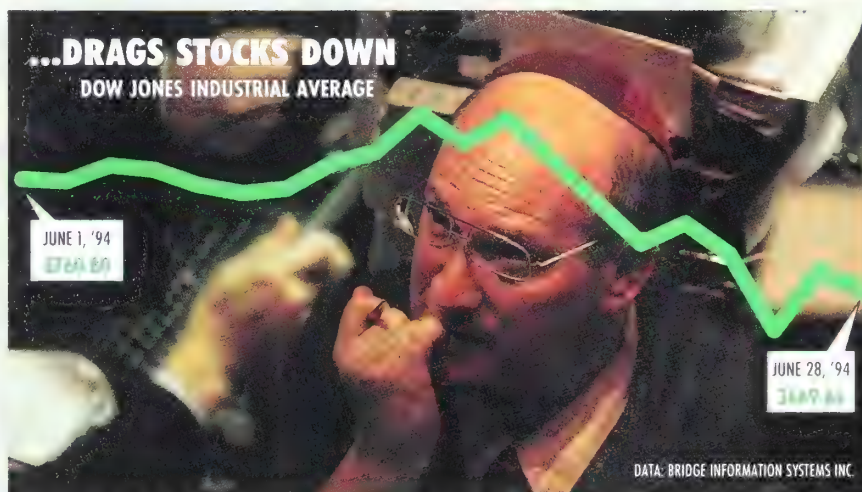
**BANK** The German central bank wants to cut official interest rates for fear of losing export markets. But if a mid-July report shows a decline in money growth, the bank could resume rate-cutting.



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divisions within the Administration. On one side: the so-called "Apocalypse Now" forces led by Treasury Secretary Lloyd Bentsen and Under Secretary for International Affairs Lawrence H. Summers. They favor a more forceful intervention—even if it fails—to send a strong signal that the U.S. is not indifferent to the greenback's slide. Indeed, in a June 28 speech in New York, Bentsen delivered the Administration's strongest rhetorical defense yet: "We believe a stronger dollar is better for our economy and better for the world's economy."

On the other side are the "fundamentalists" who believe the current turmoil reflects a strong yen, not a weak dollar. This group includes White House economic adviser Robert E. Rubin, U.S. Representative Mickey Kantor, Council of Economic Advisers Chair Lawrence H. D'Andrea Tyson. They believe the U.S. economy is sound and that the dollar's value should be set by the



markets. Says one top aide: "The dollar is in a pretty good place right now with regard to the yen." With Japanese exports to the U.S. increasingly expensive, the fundamentalists say, Tokyo should be more willing to open its domestic market to foreign imports. That could help Japan reduce its \$60 billion trade surplus with the U.S. and, in turn, ease upward pressure on the yen.

**LAME DUCKS.** Clinton aides had hoped to take advantage of the currency crisis to squeeze commitments from the Japanese to open their markets more to medical technology, insurance, and telecommunications. Then Japanese Prime Minister Tsutomu Hata resigned. And the efforts of Japan's Liberal Democratic and Socialist parties to name Tomichi Murayama as his successor on June 29 only heightened the political uncertainty (page 53). "There's no politician strong enough to strike a deal," laments one frustrated U.S. negotiator.

The Clintonites had been counting on

a presummit accord with Japan as an accomplishment they could showcase at the gathering and as a sop to the markets. Indeed, the precooked summit agenda had been kept predictably non-controversial. G-7 leaders are expected to call for a greater focus on worker training and education, and an end to Eurosclerosis-style regulations that are hampering job creation. For techies, they'll propose globalization of the Information Superhighway. And for Russian President Boris Yeltsin, the Group of Seven will offer modest support: With much of the \$43 billion they and global financial institutions pledged last year still unused, the G-7 will simply urge the International Monetary Fund to loosen the purse strings for Russia.

The group's unambitious agenda may stem from the fact that the G-7 table will be set for a flock of lame ducks. President Francois Mitterrand of France is all but certain to depart the Elysée Palace next spring, British Prime Minis-



ter John Major's grip on power remains tenuous, and German Chancellor Helmut Kohl is facing a bruising reelection campaign. Major, moreover, recently infuriated Kohl and Mitterrand by single-handedly vetoing their pick to replace Jacques Delors as head of the European Union's executive body.

That may only intensify pressure on Clinton to pull out a surprise that will

satisfy the currency markets. If the President does nothing, panicky traders could engage in a massive sell-off that could further roil stock and bond markets. A resulting spike in bond yields would slow the U.S. economy, which has been the engine pulling Europe out of its deep slump. "This weakness of the dollar is a burden for everybody," says Société Générale Chairman Marc Viénot.

So much for Clinton's hopes of showing his accomplishments from the top of the summit. Instead, without bold U.S. leadership in Naples, the turbulent markets may remind the U.S. President and the other summiteers that they're meeting under a volcano.

*By Dean Foust and Douglas Harbre in Washington and Bill Javetski in Paris with bureau reports*

Commentary/by Lee Walczak and Susan B. Garland

## 'THE DEFICIT-CUTTERS HAVE GOTTEN THEIR WAY'



Washington's hottest summer entertainment isn't *The Lion King*, Disney's new animated epic. It's the unfolding political drama that wags dub "The Triumph of the Bean Counters."

In a startling White House shakeup, President Clinton on June 27 tapped Budget Director Leon E. Panetta, a genial Californian with strong deficit-fighting credentials, as his Chief of Staff. To make room for Panetta, first friend Thomas F. McLarty III relinquished the staff chief's job for a new role as Presidential counselor. Inheriting Panetta's green eyeshade at the Office of Management & Budget: Alice M. Rivlin, a fierce foe of spending who has often tangled with Clinton's political aides. To complete the shuffle, spinmeister David R. Gergen was sent to the State Dept. to do damage control on the Administration's foreign policy.

The move has all the hallmarks of another flailing response to a dive in the polls. "Unless Panetta has been given the clout to make major changes," says Democratic consultant Joe Trippi, "this may amount to rearranging the deck chairs on the Good Ship Clinton." Indeed, the plan is very Clintonesque: No aides lost their jobs; they all got promotions.

But don't sell the President short. The staff shuffle could mark a change in his thinking about the Presidency. By turning away from a lifelong Arkansas friend in favor of a veteran Washington hand, Clinton has

decided that loyalty has its limits. With the dollar plunging, health-care reform in trouble, and market-opening talks with Japan stalled, the President has finally opted for a strong, politically astute staff boss who can advance his agenda.

In ideological terms, Clinton's White House shift continues his transformation from campaign populist to cautious New Democrat. Panetta and Rivlin will stiffen Administration re-

deficit-cutters have gotten their way over Clinton's liberal advisers, say an aide to the House Democratic leadership. Ted Van Dyk, a moderate party consultant, predicts that Panetta may urge a serious look at another round of deficit reductions. "The markets will be heartened by the new rationality at the White House," says Van Dyk.

**BIG CHANGES.** In coming days, though, Panetta has one main mission: He'll try to salvage Clinton's embattled health plan. Van Dyk predicts that Panetta & Co. will "try to convince Clinton to accept an incremental health bill." Beyond that, Panetta is weighing major changes in White House personnel and is being urged to rein in outside political consultants James C. Carville, Paul E. Begala, Stanley B. Greenberg, and Mandy Gruenwald, who enjoy unfettered access to the Oval Office under McLarty. "Panetta has bigger problems than us," says Carville.

"We're the after-dinner mints in the food chain."

Nonetheless, Carville and most Clintonites wish Panetta well. In *The Age of the Bull*, author Bob Woodward reports that Begala once attacked the deficit-obsessed Panetta as "the Poster Boy for economic constipation." Now, the man with the weary smile and the sheaf of spreadsheets has become something else: the best hope for stabilizing Clinton's Presidency.



CLINTON'S SHUFFLE CONTINUES HIS METAMORPHOSIS INTO A NEW DEMOCRAT, SIGNALING FISCAL RESTRAINT THAT COULD CHEER THE MARKETS

solve to keep spending in check. Both back a modest "investment" agenda and contend that the Administration's health plan should be financed with real money instead of iffy administrative savings. "When Panetta links up with [White House economic coordinator Robert E.] Rubin, you'll see the kind of domestic dominance that was exerted by [former Bush aides] Dick Darman and John Sununu," says one Clinton staffer.

That prospect hasn't escaped traditional Democrats, who see the budgetary writing on the wall. "The

*Walczak and Garland cover the White House for BUSINESS WEEK.*



# THINK WE CAN RUN BETTER SHIP'

Clinton on the dollar, trade with Japan, and the White House shakeup



On June 29, six days before his scheduled departure for Europe, President Clinton met BUSINESS WEEK in the Oval Office for an interview on his international agenda. Fielding questions from Senior Editor Lee Walczak and White House correspondent Susan B. Garland, Clinton discussed the upcoming economic summit, the dollar, and other key issues.

*On whether the dollar's dive will cast a shadow over the Naples summit:*  
I'm concerned about it. But when you ask me where we are, [the U.S.] has about 3.4 million new jobs, no inflation, and three years of declining deficits, [markets] would have been euphoric.... And I know that when interest rates started up, the chairman of the Federal Reserve said it was a tribute to the strength of the American economy.

*On reports he has lost his temper over recent Fed interest-rate hikes:*  
That's not true. We have shown great discipline in not commenting on Fed actions. I want steady, sustained growth. I think that's what Chairman [Alan] Greenspan wants.

*On the slow progress in gaining a*

*On prospects for the economic summit:*  
For all the currency talk, growth in the G-7 [countries] is higher than it was last year. So there will be some optimism. I see this as putting in place a framework for where the needed countries will be in the 21st century.

*On ways the allies can create jobs:*  
The G-7 can accommodate more growth without inflation. It takes substantial growth to start generating new employment, particularly in countries where wages are high and benefits cost—and every country needs to examine the flexibility of its workforce.

*On the run-up in interest rates and whether it signals dismay at Clinton's:*  
I can't answer that. If someone had asked me 18 months ago that you'd have

*sweeping market-access deal with Japan:*

First of all, I never wanted to use the dollar to reduce the trade deficit. I don't think that a country can devalue its way to prosperity. What you want is a dollar value set by reasonable market conditions. What's happened in Japan is that when the economy stopped growing, that had a big impact on purchasing by consumers and therefore on imports. And with the political situation changing, the opportunity for sustained policy change hasn't been there. That's just something we've got to face.

*On his White House staff shakeup:*

Last year, our Administration had [one of the] most successful years ever. However, we are now facing an even more daunting agenda: trying to pass health care, the crime bill, welfare reform, campaign financing and lobbying reform, and GATT in a highly charged political environment. That is going to require a very high level of discipline and all the political skills we can muster.

[New Chief of Staff] Leon Panetta has the best combination of skills in dealing with Congress and the press and is able to run a very tight ship. One of the reasons I relate to him is that when he was a member of Congress, he represented a New Democratic constituency, entrepreneurs who wanted activist government but not a bigger one. So he's philosophically attuned to the forces that brought me here.

*On whether he bears some blame for the disorganized White House:*

I am ultimately responsible for the failings of the White House. But it is important that you draw a distinction between disorganization, which is dysfunction, and creative tension and debate. I like to hear different points of view. A lot of Presidents have gotten in trouble by having well-organized processes that had no honest debate about them. I don't intend to let that happen. But I think we can run a better ship.

*On prospects for health-care reform:*

Once we get bills on the floor [of Congress], there's a good chance we can get a bill that sets up a mechanism for all Americans to be covered, for disciplining costs, and for banning unfair insurance practices. I'm

not changing my position [on universal coverage]. I don't want to get into a Jesuitical debate on what constitutes that. And I don't want to sign a fraud.

*On predictions that the Republicans will score big gains in the mid-term elections:*

In the 20th century there has just been one mid-term election where the party of the President has not lost seats. I believe if we can keep our economic recovery going and keep hammering on the achievements, we'll do reasonably well—maybe even surprisingly well.



**"I NEVER WANTED TO USE THE DOLLAR TO REDUCE THE TRADE DEFICIT. I DON'T THINK THAT A COUNTRY CAN DEVALUE ITS WAY TO PROSPERITY"**



### IT'S GONNA BE THE ECONOMY, STUPID

Already, Clinton is looking for ways to keep the expansion chugging till '96



President Clinton is barely a third of the way through his first term, yet his top economic advisers are marching into the Oval Office clutching charts and prognostications for 1996. Why the top-level skull sessions? To gauge the economy's health and determine what, if anything, can be done to give the 40-month-old expansion legs to make it to Election Day '96. "That's where we need to be focusing our attention now," frets a senior Administration official.

Clinton has a lot riding on this recovery. "If the economy gets even a little bit shaky, he will absolutely plummet in the polls," predicts University of Cincinnati political analyst Alfred Tuchfarber. So far, though, the President is doing well. He is on track with his promise to create 8 million jobs during his first term. Real growth is in the 3%-plus range, and inflation is nowhere to be found. The federal budget deficit is shrinking faster than predicted.

**BEAR TRAPS.** The problem, of course, is that the current expansion is looking a bit long in the tooth. It started in March, 1991, and will be 68 months old if it lasts until the next Presidential election. The great booms of the 1960s and 1980s lasted longer—106 and 92 months, respectively. But the average length of the last six major expansions is just 59 months, and most were shorter (chart).

Not to worry, the Council of Economic Advisers is telling Clinton. In its July 15 economic review, the CEA will forecast growth of 2.7% for 1995—fast enough to keep creating new jobs but not so fast as to rekindle inflation. What's more, the CEA is arguing that the Bush recovery, which officially began in March, 1991, was so lackluster that it makes more sense to date the expansion from mid-1992, when unemployment peaked. That would make this upturn a mere two years old.

Certainly, there is independent support for the CEA's optimism. According to a soon-to-be-published study by the Center for International Business Cycle Research at Columbia University, the current expansion should make it to December, 1996. That prediction is based on the historical behavior of the prime rate during business cycles.

Most private forecasters share the Administration's view that the expansion isn't in any immediate danger. The Blue Chip consensus forecast shows a growth rate of 2.8% for 1995. Even pessimistic economic seers expect the economy's performance to be a plus for Clinton in '96. For example, DRI/McGraw-Hill's latest estimate shows a slowdown in 1995, followed by a gradual economic pickup in 1996.

But Clinton's path is strewn with bear traps. The dollar's recent decline against the Japanese yen and German mark runs

the risk of driving up long-term interest rates as lenders demand a premium for declining dollar assets. Higher bond yields, in turn, could strangle the expansion at precisely the wrong time for Clinton's reelection efforts. So, too, could overzealous hikes in short-term rates prompt the Federal Reserve to head off inflation. That could panic the markets and prompt consumers to shut their wallets.

**BUDGET RESTRAINTS.** Still, figuring out what the Administration could actually do to stretch out the current expansion has the economic team stumped. If the economy sags badly, White House political advisers may try to revive Clinton's 1992 promise of a middle-class tax cut to stimulate consumer spending. But that would force Congress to suspend newly enacted pay-as-you-go rules curbing the deficit.

Reviving Clinton's investment plan for public infrastructure—a stimulus favored by Labor Secretary Robert Reich and White House liberals—faces the same budgetary restraints. Another possibility endorsed by Fed Chairman Alan Greenspan: a new deficit-reduction effort to lower long-term rates and add life to the expansion.

For now, the Clintonites are hoping the economy won't need such strong medicine. After all, real wages are beginning to climb, putting more money in consumers' pockets. Business spending on equipment is still surging, promising big productivity gains. And with Europe and Japan climbing out of recession, net U.S. exports will start adding growth to the economy. "We know we are going to sustain the recovery," says CEA Chair Laura D'Andrea Tyson. "Job income, and confidence. The real question is, what could stop it?" The Clintonites hope the answer is—nothing.

By Paul Magnusson in Washington

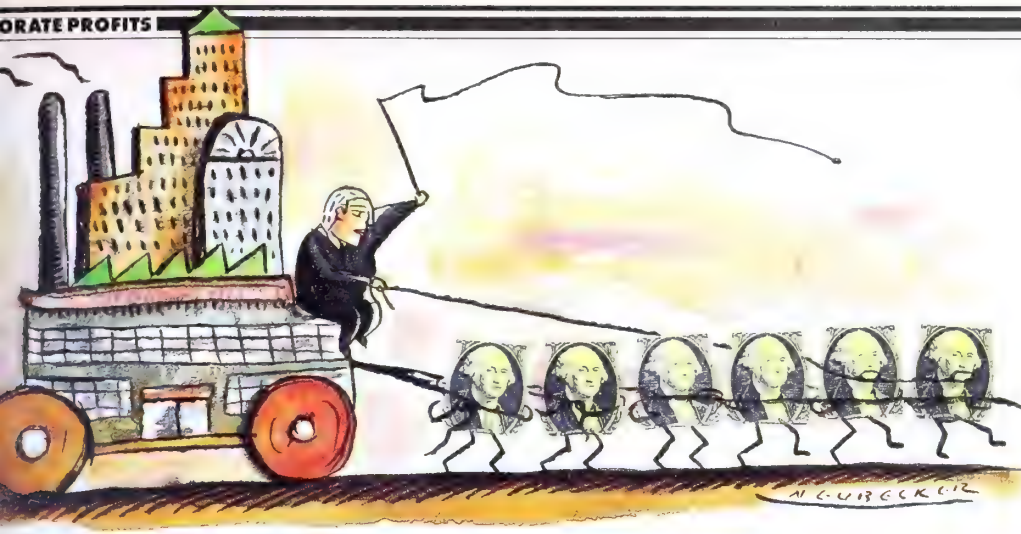


MAIN STREET'S MAIN CONCERN IS STILL ITS PAYCHECK

### A YOUNG RECOVERY?







## WEAK DOLLAR, STRONG PROFITS

For some U.S. companies, the fading greenback translates into a windfall

On the streets of Tokyo, the word is *endaka*, or strong yen. Germans say *Dollar schwache*, or weak dollar. In the United States, there's no simple name for the dollar. But the effect is clear: The dollar's dizzying fall has U.S. companies reaping their global pricing, market-expansion and expansion strategies. Whatever you call it, the dollar's decline is a clear opportunity for many of America's global companies. U.S. products and services have suddenly become more expensive overseas—just as Europe and Japan are climbing out of recession. And profits from foreign operations get turbocharged when they're translated back into greenbacks. There are risks, too, of course. The primary one is macroeconomic: If the dollar continues to weaken, embryonic recovery in Europe and Japan could fizzle, as the countries' exports to the U.S. become ever more expensive. The higher the yen and mark and yen also could raise the price U.S. consumers must pay

for German and Japanese goods. A further risk: The weak dollar will force many U.S. companies to cut back on increasingly-costly investments in overseas expansion. For now, though, the dollar's decline should present an opportunity for U.S. companies. With as much as 20% of overall

U.S. corporate profits derived overseas, the buck's backtrack could boost third-quarter corporate earnings as much as 5%, figures William E. Dodge, chief investment strategist for Dean Witter Reynolds Inc.

**"TAKING A HIT."** Another positive effect: Many companies see their best chance in ages to try to expand overseas market shares. For instance, the dollar's tumble has accelerated a software price war in Asia that's being led by U.S.-based technology companies. Lotus Development Corp., Microsoft Corp. and other U.S. software developers have slashed prices by as much as 80% since last May, when Microsoft began discounting prices as part of its launch of Windows 3.1 in Japan. Lotus is now cutting its prices so quickly that "we're actually taking a hit in revenue growth, and the only way to compensate is to push for higher volumes," says Yutaka Sakamoto, the company's comptroller in Japan.

Another company doing its best to benefit from currency chaos is AFLAC

Inc., a Columbus (Ga.) insurance company that does 80% of its business in Japan. It has put 22 people to work full-time trying to squeeze every bit of potential profit out of its \$125 million per month in cash flow from Japan. It also reinvests as much as 90% of Japanese profits in Japan, to take advantage of the strong yen. "We are trying to outrun the effect of the increasing yen," says

Joseph W. Smith Jr., AFLAC's chief investment officer. What other U.S. companies have a chance to make big gains? Food, beverage, and tobacco companies are boosting their promotional spending overseas to capitalize on the newfound pricing advantage. Caterpillar Inc.'s earthmovers and other made-in-America equipment will benefit, as will Detroit's cars. With the strong yen rendering Japanese-made cars more expensive, "it's going to help our competitive position," notes J. Michael Losh, General Motors Corp.'s chief financial officer.

Multinationals such as DuPont Co., however, often find the weak dollar "a two-edged sword," says John C. Sargent, the company's treasurer. DuPont gains in Japan, where it has major dollar-based export operations. But in Europe, where the company manufactures and sells locally, it's a mixed bag. For Federal Express Corp., the problem is that the cost of oil is rising in opposition to the dollar's decline. Federal Express is striving to balance its costs and expenses, buying fuel in French francs at its Paris hub to offset revenues from Europe. Paying francs for fuel also helps compensate for oil's recent dollar-driven price jumps.

Whatever their business, few companies can afford to write off the dollar's recent drop as a short-term phenomenon. "We talk about it a lot in our strategy sessions," says Alan B. Graf Jr., chief financial officer of Federal Express. "The current situation can have a dramatic impact." Until the dollar stabilizes, Corporate America will do its best to get the most bang it can from every weak buck.

*By David Greising in Atlanta, with Neil Gross in Tokyo*

## COPING WITH THE BATTERED BUCK

**BALANCING BUSINESS** Matching revenues with costs in any given country cuts currency risks but can hurt pricing flexibility.

**SLASHING PRICES** In Japan, American software companies are waging a spirited price war.

**ATTACKING ON THE HOME FRONT** Cars, computer gear, and other imports from Japan and Germany are increasingly expensive in the U.S. If Detroit holds prices, it could gain.



## REORGANIZATIONS

### THIS TIME, DEC CUTS DEEPER

After huge losses, it tries the most radical restructuring yet

**F**or weeks, Digital Equipment Corp. Vice-President Enrico Pesatori has been holed up in his Maynard (Mass.) office. His unenviable task: shaping the battered computer maker's future. Thrust into the job after DEC's surprise \$183 million loss in the quarter ended Apr. 2, Pesatori now is polishing a plan for a reorganization that may represent the best hope for salvaging the once mighty giant.

By July 15, say current and former executives, Pesatori will outline a dramatic \$1 billion restructuring that cuts 20,000 jobs, shuts additional factories, and focuses the company on five key groups. Also in the works: sales of significant assets. The new DEC will emerge as a Procter & Gamble-like array of units—each with its own engineering, manufacturing, and marketing. **RESTIVE BOARD.** The plan amounts to no less than radical surgery on an organization already unhinged by years of layoffs, frequent reorganizations, and plummeting morale. And it represents what could be Chief Executive Robert B. Palmer's last chance to extend his 20-month-old tenure in the face of a restive board of directors. DEC, with \$13 billion in sales, has lost \$4 billion in the past four years. Analysts expect an additional \$100 million operating loss for the fourth fiscal quarter ending July 2—before the restructuring charge.

The worry, says PaineWebber Inc. analyst Stephen K. Smith, is that DEC won't do enough to cut costs. After spending \$3 billion since 1990 on restructurings that have failed to reverse its losses, the company's cash has dropped to below \$1 billion—forcing it to consider the sale of major lines. "If DEC can sell one asset for \$600 million, it takes

away the fear of further balance-sheet erosion," says Smith. A DEC spokesman declined to comment on the company's restructuring.

Pesatori, who arrived at DEC in February, 1993, after heading Groupe Bull's Zenith Data Systems personal-computer unit, likely will slash sales employment and adopt the low-overhead structure of the PC industry. According to executives briefed on his plans, the company will begin fiscal 1995 with fewer than 2,000 direct salespeople in the U.S.—a third fewer than a year ago. The remaining reps will call only on big customers. Smaller buyers will be assigned to independent distributors.

The plan entrenches DEC as a hardware maker, removing the company from costly misadventures in applications software and management consulting. Existing software products—such as health-care applications, databases, and networking programs—will be sold in the next few months, say executives close to the restructuring.

In addition, those sources say, DEC will de-emphasize manufacturing, turning more to independent contractors to make its computers. DEC will shutter additional manufacturing plants and shift underutilized capacity for its Alpha microprocessor to Advanced Micro Devices Inc., which already has plans to use DEC's South Queensferry (Scotland) plant to build PC chips. An AMD spokesman says that the company has no new agreements with DEC.

In one fell swoop, DEC will become a confederation of five discrete businesses—computer systems, networking, disk storage, peripherals, and service. The businesses each will sell products under their own brand names. Peter Rauler-

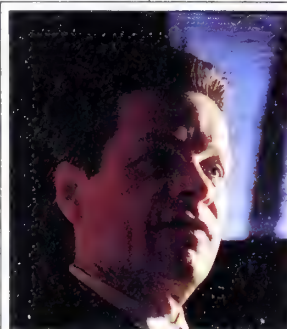
son, president of consultants ParaTechnology Inc., says the move is overdone. "The marketplace clearly wants to buy disks, network products, and computers from specialists. Digital now understands this."

The job of making Pesatori's plan work now falls to CEO Palmer. Since April's stunning loss, he has been actively shopping DEC's noncore businesses. On the block: everything from its suburban Boston fiber-optic data network to a \$1 million management-consulting operation. Already such tire-kickers as consultant Computer Sciences Corp. have looked at the \$330 million data-center outsourcing operation, according to executives close to the company. CSC won't comment.

**A DIPLOMAT.** Later, DEC also may sell one or more of its chipmaking factories, among other big assets. But those more substantial sales, many needed to supply the cash that will fund layoffs and plant closings, may take time. DEC is fearful of repeating past restructurings that scared off business. "Part of it is, they can't be too much disruptive," says an executive involved in the current overhaul. "They don't want to do anything that

will disturb the customers." For Pesatori, 53, smoothing ruffled feathers seems second nature. He made DEC's PC business profitable by rapidly wooing distributors and keeping corporate involvement to a minimum. Described as diplomatic and charming to co-workers, Pesatori also is "decisive and tenacious," says a former employee. As part of the restructuring, he will take over DEC's core computer operations. And if everything works, he may just save his boss's job.

By Gary McWilliams in Boston



**CEO PALMER (TOP) COULD LOSE HIS JOB IF PESATORI'S COST-CUTTING PLAN DOESN'T WORK**



### ANOTHER NEW DEC TAKES SHAPE

*Probable elements of Digital Equipment's latest restructuring*

#### BRAND FOCUS

DEC will reorganize around products, attempting to develop Procter & Gamble-like brand identities for key lines. New divisional structures will hand most decision-making to division managers.

#### ASSET SALES

On the block: Manufacturing plants, a data-storage unit, DEC's internal fiber-optic network, and a consulting business. The sales are needed to offset \$1 billion in charges for layoffs and plant closings.

#### REP REDUCTION

DEC's sales force will be thinned by 30%, with most small and midsize customers shifted to independent distributors. Remaining reps will get commissions calculated on profits, not sales.



# NEWTON: WILL WHAT ALL DOWN GO UP?

ite sour sales, Apple isn't giving up on its personal digital assistant

all it a reality check for Apple Computer Inc. Or call it a second chance for Newton, the much-battered personal communicator the company introduced last year. Either way, the unit is in the midst of a massive overhaul of its Personal Interface Electronics group—a unit charged to lead its charge between personal computers and new businesses. The end result: what insiders are dubbing a “new, economy-sized” unit aimed at getting Newton moving again.

Since early June, Apple has streamlined PIE, laying off 50 workers, about 20% of the unit's workforce. It has ended PIE projects, including a version of a larger Newton and a planned multimedia code-named “Sweet.” PIE's languishing interactive efforts have been shifted to other divisions. And its old on-line service, launched on June 20, will be moved off into a separate company by October, with at least outside investors. Says Financial Officer Joseph Graziano: “We're making tough decisions and trade-offs.”

The argument there. Until now, PIE has been the emblem of Apple's bid for new markets. But its first foray, Newton, has been less than a bell-ringer. It launched last August as a new category of consumer-electronics device, a so-called personal digital assistant that keeps schedules and volumes of data, sends out faxes and electronic messages—all from just about anywhere. Critics lampooned Newton's iffy handwriting recognition and \$699 price. **“DISASTER.”** So, Apple regrouped. Last month it introduced a new version of the unit, at \$499 to \$599, that had greater battery life and addressed some of the handwriting problems. The MessagePad 110 is doing better than its predecessor, but sales have been disrupted by buyers who have exchanged models for the new one.

And told, Apple says it has sold only 100 units—far below even the most conservative estimates of 150,000. Says Peter Manley, president of First Step

Computers, a six-store retail chain in Maryland and Virginia: “I'm not saying Newton is dead, but so far it's been a disaster.” Graziano, who is heading PIE after General Manager Gaston Bastiaens left abruptly last April, concedes that



FIELD TESTS: FARMER GRAY IS SOLD ON THE NEWTON'S USEFULNESS

Apple “can't help but feel disappointed, at one level. But that doesn't mean we're backing away.”

How much has PIE cost Apple so far? Graziano won't discuss the unit's financials other than to say it will not be

profitable this year—as Apple executives once promised—but should be by the second half of 1995. Other insiders say the unit lost nearly \$50 million in the fiscal quarter that ended Apr. 1.

The drain comes as Apple struggles to shift from its 10-year-old Macintosh computer line to new, speedier Power Macs. Initially, Power Mac sales were glowing: 145,000 units shipped in the first month after the March debut. But since then, buyers' ardor has cooled as they wait for more new Power Mac software. Analysts now say Apple will ship only 200,000 Power Macs this quarter vs. prior estimates of 300,000. Partly as

a result, they figure Apple's earnings fell by more than half in the just-ended quarter, to just \$42 million on revenues of \$2.1 billion.

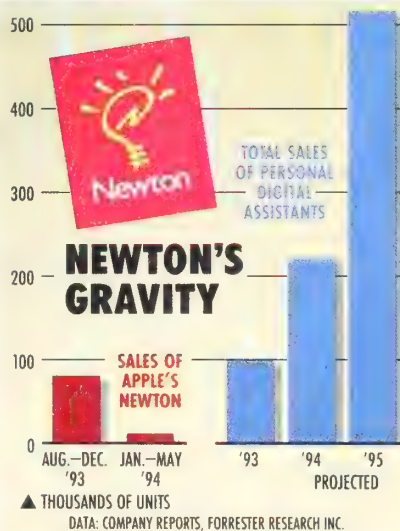
**VIRTUAL REALITY.** In the midst of this crunch, Graziano is redoubling Apple's efforts to make Newton a long-term success. The strategy: to spin it as a practical, handheld device for mobile business professionals. To lure corporate buyers, Apple is providing software-development tools that make it easier and faster for companies to create customized software. Also, the \$599 top price is half that of most handheld computers now used by field workers. Apple also is shifting distribution to 70 resellers that cater to corporate customers.

There already are a few signs that Newton is doing better. CorNet International Ltd., a sales force automation company in Stroudsburg, Pa., is gearing up for a pilot with a large drug company that will put Newtons in the hands of 50 sales representatives. PRC Realty Systems Inc., a McLean (Va.) supplier of computer systems to realtors, is set to roll out Newton software that allows realtors to access property information instantly. The assessment based on tests so far? “In price and performance, Newton has proven to be the best” data-collection device, says Bob Goldberg, PRC's marketing vice-president.

Meanwhile, Wayne Gray, a Claremont (Ill.) corn and soybean grower, is one of about 100 farmers testing Newton in the field—to track plantings, fertilizers used, results, yields, and forecasts of profitability. “It's not perfect,” says Gray. “But it's a whole lot better than some of these articles on the negative aspects.”

Positive testimonials, to be sure. And if Newton is to be reborn, it will need many, many more.

By Kathy Rebello in Cupertino, Calif.







**GATEWAY 2000 AT PC EXPO: ONE COMEBACK STRATEGY IS TO WOO CORPORATE SHOPPERS**

## THE PC IS NOT IN THE MAIL

As buyers are given more options, catalog sales aren't what they used to be

**T**he boom in direct-mail computer sales has gone bust. Just two years ago, personal-computer manufacturers were falling all over themselves to set up 800 numbers and send out product catalogs. They were trying to break into the hot mail-order business fueling hypergrowth at such PC marketers as Dell Computer Corp. and Gateway 2000 Inc. Even conservative corporate PC buyers were drawn into ordering PCs sight unseen at rock-bottom prices. And analysts were projecting that by 1995, as much as 30% of all PC purchases would be by mail.

No more. Mail-order sales are cratering. Unit sales, which were up by 89% in 1992, will increase by 18.7% this year and just 8.9% in 1996 (chart), figures researcher Computer Intelligence InfoCorp. A sign of the stress building up in the business: On June 23, Gateway, based in North Sioux City, S.D., announced that it expects to take an \$18 million to \$20 million charge for excess inventory in the quarter that ended June 30. Despite a 13% jump in first-quarter sales, to \$616 million, the industry's leading supplier of PCs sold by mail got stuck with systems based on earlier—and slower—versions of Intel Corp.'s Pentium chips.

The bust in mail-order PCs is hitting manufacturers just as the overall PC-in-

dustry growth rate has started to fall. InfoCorp estimates growth in PC shipments will dip to 10% this year, down from 15% in 1993. Already, signs of a slowdown are cropping up: Lotus Development Corp. and PC distributor Merisel Inc. both reported disappointing second-quarter earnings.

Top-line PC makers are feeling the mail-order slump, too. "A few years ago," says Ross A. Cooley, senior vice-president for Compaq Computer Corp., "we were arguing whether direct sales would be 50% of the [entire PC] market." But now, with retail and dealer sales booming, mail-order represents just 3% of Compaq's \$7.2 billion in sales.

IBM hasn't fared much better. Richard Zwetchkenbaum, PC analyst for market researcher International Data Corp., says Big Blue's Ambra Computer Corp. mail-order subsidiary isn't profitable, although he figures it's only "a minor drain" on earnings. In February, IBM folded Ambra's European arm, and analysts say the U.S. unit could be dismantled, too. G. Richard Thoman, the IBM senior vice-president who took over PCs in Janu-

ary, won't discuss Ambra's earnings future. He says he has been focusing on stemming market-share losses IBM's main PS/2 and ValuePoint lines don't think I've spent an hour on Ambra since I've been here," Thoman says.

So what happened to the boom mail-order business? Price wars, shorter product-development cycles, and fiercer chips hit hard. At one time, overhead and toll-free order lines gave mail-order companies "an immense advantage," says Seymour Merrin, president of consultant Merrin Information Services Inc. But PC makers got too fast. "Once you take away the price advantage, buying direct doesn't seem quite so good to customers," explains Compaq's Cooley. There also used to be fewer good shopping options for buyers. Now, choices abound, from Sears to computer superstores such as CompUSA.

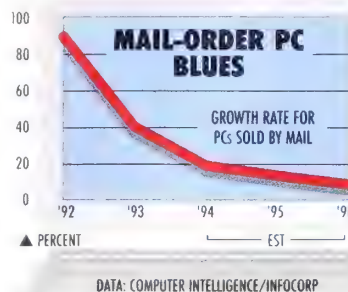
**NOT DEAD YET.** What's more, mail-order companies used to be able to get a jump on adding the latest technology to their machines. Now, every PC company is pushing hard to quickly adopt new technology into its machines, says Richard Zwetchkenbaum.

Still, the mail-order business is far from dead. Dell and Gateway are taking steps to improve their performance. Dell, the first darling of mail-order, invested in new inventory-control systems that help slash prices and get more-powerful systems out faster. So does Joel J. Kocher, president of worldwide sales for Dell: "We're very serious about reemerging as the leader in the mail-order business."

Meanwhile, Gateway is planning to expand. It hopes to lure customers by offering new subnotebook PCs, developing its European operations, and going after more corporate customers.

One tactic: At PC Expo, the personal-computer convention that started June 28 in New York City, Gateway shelled out for a big stand, its first ever at such a gathering. The goal: to use its distinctive Holston logo to catch the eye of some of the estimated 110,000 corporate buyers wandering the floor. "There is no fundamental reason why direct response can't grow," says Gateway's Ted Waitt. But with the mail-order business so tough, Gateway knows it has to cultivate greener pastures.

By Paul M. Eng in New York, Peter Burrows in Dallas





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### CAN MCC PAY THE BILLS?

A jury award and unhappy members may leave the consortium strapped

**T**welve years ago, in what remains a remarkable attempt at collaboration, 10 U.S. companies agreed to combat Japan's growing challenge in high technology by forming a privately-funded research consortium. Called Microelectronics & Computer Technology Corp.—MCC for short—the consortium promised to leverage America's lead in basic computing technologies.

Some \$500 million later, Austin-based MCC has yet to live up to that expectation. Its mandate to share the fruit of risky long-term research has been diluted amid short-term commercial investments. Boeing Co. has dropped out, citing lackluster returns on its investment. Honeywell and Bellcorp have reduced funding. Others among the 92 members have criticized much of MCC's research as inconsequential. The group, whose budget has shrunk to \$40 million from \$65 million a few years ago, has a book value of just \$5.3 million.

**"DEATH BLOW?"** Now, MCC faces its most severe test ever. On June 22, an Austin jury awarded \$26.8 million to Carmen Burns, 55, an inventor who claimed the consortium and a company it partly owns stole trade secrets. MCC hasn't decided if it will appeal the judgment and is still negotiating with its insurance carrier over reimbursement. Burns's attorney says the insurer's liability may total \$17 million. Even so, it's not clear that MCC can survive the financial hit. "This [verdict] clearly could be a killer. It could be a death blow to MCC," says retired Navy Admiral and former CIA honcho Bobby Ray Inman, MCC's founding CEO, who left in 1986.

Some investors and outsiders blame MCC's decline on Craig I. Fields, who resigned abruptly as CEO this spring. During four years in the job, he de-emphasized software research in favor of easily com-

mercialized projects. In 1992, for instance, he launched MCC Ventures Inc., which tries to speed MCC's innovations to market by backing startups with financial, technical, and administrative support.

Although some of MCC Ventures' efforts paid off, they've left the consortium in a muddle. Some investors, frustrated by poor research results in computer architecture, software, and packaging technology, have withdrawn their funding. "It has been very difficult to transfer much of that technology to the [member] companies," says David V. Gibson, a senior research fellow at the IC2 Institute at the University of Texas

who co-authored a book about MCC. Burners say that board members finally decided that too many resources were being siphoned off by the venture capitalist pressed for Fields's resignation. Fields didn't return calls, and MCC officials wouldn't comment.

In the meantime, though, inventor Burns sued RTB Technology Inc., a company 40%-owned by MCC Ventures. In October, 1993, suit, he claimed that Eric Garth, his former partner and RTB founder, had kept drawings of Burns' cube-like memory device and then teamed with MCC to market the same idea. Burns also claimed that MCC and RTB libeled him by suggesting he had improperly used trade secrets. The jury sided with Burns, who now says: "I feel vindicated. It's a difficult situation to have people call you a thief." Neither Garth nor his attorney could be reached for comment.

**SHALLOW POCKETS.** Some MCC members say they are concerned about the impact the judgment could have on the consortium. But that doesn't mean they are about to pay the bill. "I don't think that we are obligated [to help MCC]," says Jerry Krinke, manager of quality and technology in manufacturing for Computing Devices International. "We're not shareholders." Says another member: "Our only obligation to MCC is research funding, not legal."

That means MCC may have a hard pressed to come up with even part of the jury award. And it will make John McRary's job all the tougher. McRary, formerly vice chairman and executive vice president of Science Applications International Corp., became MCC's CEO on July 18. One of his challenges: restoring the role of his research staff, which some say suffered because of Fields's abrasive management style and his reduction of funding.

That won't happen if McRary can't find cash. In the end, the consortium's future may rest on his ability to repair relations with investors—a prickly task. "I wouldn't be moving to Austin if I thought MCC had any problems that were insurmountable," he says. He may find a few, though, once he arrives.

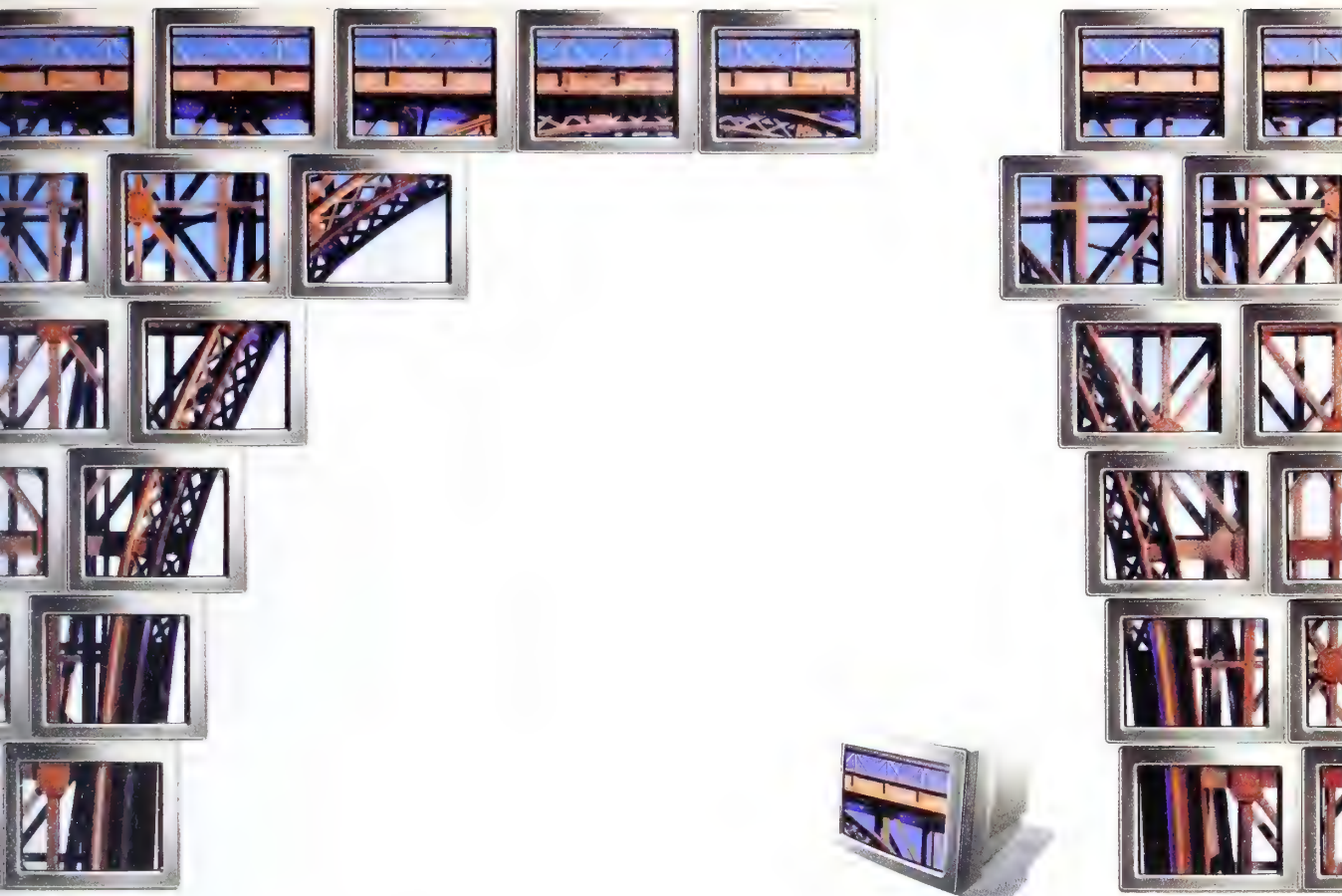
*By Stephanie Anderson, with Peter Burrows, Dallas*



INVENTOR BURNS WITH THE DISPUTED MEMORY PACKAGE

### MCC'S SAGA

- 1982** Microelectronics & Computer Technology Corp. is founded in Austin with retired Navy Admiral Bobby Ray Inman as CEO.
- 1987** Annual budget peaks at \$65 million.
- 1990** Craig I. Fields, former director of the Pentagon's Defense Advanced Research Projects Agency, becomes MCC's president—and CEO a year later.
- 1992** Fields forms MCC Ventures Inc. to assist fledgling companies with financial and technical support.
- 1993** Boeing drops out of the consortium, citing lackluster return on investment. Other members, among them Bellcorp and Honeywell, curtail MCC funding.
- 1994** Annual budget shrinks to \$40 million, and research staff is down 15% from its 1988 peak. Fields resigns this spring. Three weeks later, a Texas jury finds an MCC subsidiary guilty of stealing trade secrets. The award: \$26.8 million.



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EDITED BY KEITH H. HAMMONDS

## NATIONAL MEDICAL PAYS THE PIPER

**N**ational Medical Enterprises cut a landmark deal with the Justice Dept. on June 29 to settle charges of Medicare fraud and conspiracy. The agreement, stipulating payments totaling \$363 million, is the largest yet in the Clinton Administration's high-profile crackdown on health-care fraud. As part of the accord, the product of nine months of negotiations with Justice, NME will plead guilty to illegally paying care providers for referrals to the company's psychiatric hospitals. NME will pay an additional \$16 million in fines to resolve other claims in 28 different states. The deal

"will signify that NME is taking full responsibility for past conduct," says Jeffrey Barbakow, who took over as CEO last year to straighten out the mess.

## AND THE WINNER LOOKS LIKE—CONSECO

**U**pstart Consec emerged to outbid GE Capital Services for Kemper, the mutual-fund and insurance outfit. Although Kemper directors took just three days to accept Consec's \$2.68 billion deal on June 26, not everyone is cheering. Kemper shares closed on June 29 at 60¢, well below the \$67-per-share value of Consec's cash-and-stock offer. Some analysts question the management knowhow of Stephen Hilbert, the charismatic chairman of Consec. Others worry about the lower credit rating that's likely to be conferred on the debt-saddled combined company, which would go by the Kemper name.

## HEADLINER

### NEW DRIVER AT GM

**A**nother bean counter moves ahead in a business once run by car guys. On June 28, Richard Wagoner, General Motors' CFO and a confidant of Chief Executive Jack Smith, was named to head the company's core North American auto business.

Wagoner is the prototype of the young quasi-outsiders now running the auto maker. Like many, he began in the New York treasurer's office, hired there in 1977 after receiving his Harvard MBA. But he spent most of his career overseas—working as finance vice-president in Europe under Smith, then heading GM's extremely successful Brazil-

ian operation. (A Duke alumnus and die-hard basketball fan, he monitored the 1992 college championship phone from South America.)

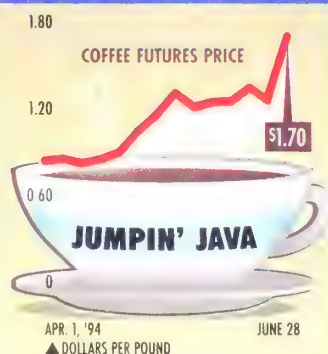
Promoted to CFO in 1992, Wagoner oversaw the effort to shrink GM's yawning pension deficit and begin storing the company's credibility with Wall Street. He also has had to soothe suppliers riled by

tumultuous former chairman chasing chief J. Ignacio López. The Spaniard's price of health-nut López' ban on junk food: Wagoner delights in serving Twinkies at his meetings.

By Kathleen Kerr



## CLOSING BELL



**S**oon, the price of your morning Joe may itself be enough to snap you awake. An unexpected frost in Brazil's key growing regions sent the price of coffee soaring 34% in two days, to \$1.70 per pound by June 28. While damage won't be tallied until mid-July, as much as one-fifth of Brazil's crop could be lost. Even before the frost, tight supplies had pushed coffee prices up. "This is just adding a lot of fuel to an already-burning fire," declares Merrill Lynch analyst William O'Neill. What's next? Maybe more cold weather. The frost season in Brazil, the world's largest coffee producer, lasts until early August. Meantime, coffee wholesalers already are raising prices.

DATA: BLOOMBERG FINANCIAL MARKETS

## BELL AND NYNEX COMBINE CELLS

**M**et the new cellular behemoth. Bell Atlantic and NYNEX were scheduled to announce on June 30 that they will combine their cellular-phone businesses to form an 18-state giant that will rank second in potential customers only to a merged AT&T-McCaw Cellular. The as-yet-unnamed outfit will cover a territory with 55 million potential customers stretching from Maine to South Carolina, plus two western states. Together, the operations top \$1.2 billion in annual revenues. Although it will be wholly owned in a 62%-38% arrangement dominated by the bigger Bell Atlantic, going public is an eventual option, says Bell Atlantic Chief Operating Officer Lawrence Babio Jr. So is entering the market for personal communications services, or PCS.

## MESA'S ORNSTEIN FLIES THE COOP

**J**onathan Ornstein, the 36-year-old dealmaker who helped build Mesa Airlines into one of the country's most successful regional airlines, is moving on to head Continental Airlines' commuter carrier, Continental Express. After a string of successful acquisitions, Ornstein seemed to lose his touch in recent months: Three deals, including a potential acquisition of Continental Express, unraveled. And disappointing earnings have more than halved Mesa's share price since March. Ornstein's job won't be any easier at Continental Express: The carrier lost \$70 million last year.

## TELEPHONE BILLS ADVANCE IN CONGRESS

**T**he House of Representatives passed two bills on June 28 that could reshape

the telecommunications industry. However, the measure faces tough going in the Senate. One of the bills would allow local telephone and cable companies to compete head-on, while the other lets Bells make telephone equipment and sell long-distance service. In the Senate, a measure dealing with similar issues should come from committee in July. Proponents hope for passage by August. But the Bells, who call the bill inadequate, have vowed to kill the measure.

## ET CETERA...

- Whopper refund: Amstar will get \$440 million back from the IRS.
- Sheltered life: The Clinton won't pay taxes on donations to their legal defense fund.
- Mexican banker Carlos Bal Peniche will pay \$1 billion for Del Monte Foods.
- Harris Trust, the latest corporate derivatives victim, will take a \$33 million charge.





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## THE INCREDIBLE SHRINKING HEALTH-CARE PLAN

Washington's war over health-care reform seems nasty, brutish, and endless, be warned: You ain't seen nothin' yet. The battles are getting bloodier, and the final product is king.

The Senate Finance Committee was supposed to be the place to pull together a bipartisan package for fixing the health-care system. But the panel's pre-July 4th political fireworks show that a consensus bill is now out of the question. True, a group of six committee Republicans and Democrats hammered out a compromise, but the plan has little hope of attracting many votes from either party. So the House and Senate are preparing for a steamy summer session that will pit President Clinton's promise of guaranteed health-care coverage for all against charges that "Hillary Care" will wreck the current system for the 85% of Americans who already have insurance.

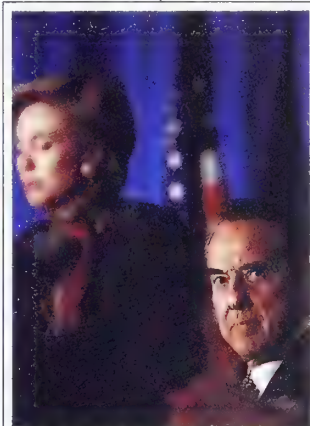
**HOPE.** As the spirit of cooperation deteriorates, the odds grow that reform will be minimal. Rather than overhaul the \$1 trillion health-care system, lawmakers will narrow their focus to middle-class voters' fear of losing insurance. The problem can be solved largely through incremental changes that make insurance easier to buy and harder to lose. But such fixes won't make medical care more efficient or cheaper.

The Finance panel was the last hope for bipartisanship. House leaders and Capitol Hill moderates had counted on its centrist members to balance Democrats' demands for universal coverage with Republicans' refusal to saddle employers with the tab. But the rump group—reflecting the rightward shift in public opinion—produced a plan that expands coverage by relying solely on insurance reforms and subsidies for the uninsured. Even if their coverage target—95% of the population by 2001—is missed, the compromise would not force individuals to buy insurance, or employers to pay for it.

Trouble is, few are buying the deal. Dubbed Clinton Lite, it's too close to the original for the GOP but not filling enough for Democrats. Both Chairman Daniel P. Moynihan (D-N.Y.) and Senate Minority Leader Bob Dole (R-Kan.) undercut the compromise with their own, hardly more popular proposals.

Out of this chaos, the rump group's plan might emerge—but it won't survive long on the Senate floor. Majority Leader George J. Mitchell (D-Me.) will champion a far more sweeping bill by Senator Edward M. Kennedy (D-Mass.) that puts the insurance burden on employers immediately. Republicans will counter with a stripped-down set of insurance reforms: Dole's plan, offered June 29, would bar insurers from denying coverage to people with preexisting conditions and would require policy renewals.

House Republicans could be happy with Dole's bill—but might be even happier with nothing at all. One hardball tactic: play to voter fears that reform will cost more and deliver less. In a June 24 meeting with business lobbyists, House Minority Whip Newt Gingrich (R-Ga.) revealed GOP plans to give a sinister cast to Democratic efforts to merge massive plans from two committees. Gingrich will invite radio talk-show hosts—Clinton's harshest critics—to broadcast from outside "the secret room" where the closed-door talks take place. The GOP will



**DOLE HAS AN ALTERNATIVE TO "HILLARY CARE"**

be nearby to attack what Gingrich calls "an act of corruption." He'll also demand several days of hearings on the merged measure, eating up critical time before adjournment.

Faced with such guerrilla tactics, Clinton confronts a tough choice: Does he hold out for sweeping reform and risk getting nothing or cave in to the opposition and accept minimalist steps as a downpayment on health-care security? With GOP gains expected in Congress this fall, a face-saving retreat might be the best Clinton can hope for on his top priority.

*By Mike McNamee*

### TAL WRAPUP

#### ITICS

Don't look now, but the 1996 Presidential campaign is well under way. And while Senate Minority Leader Bob Dole (R-Kan.) is hogging the headlines as the GOP front-runner, former Tennessee Governor Lamar Alexander is emerging from the shadows as a top-tier contender. George Bush's campaign Secretary is doing it the old-fashioned way: with shoe leather and grassroots organization.

Alexander's hustle paid off on June 29 when he finished a surprising second to Dole in a straw poll at Iowa's caucus. That embarrassed big-name rivals: former Housing & Urban

Development Secretary Jack Kemp, ex-Defense Secretary Dick Cheney, and former Vice-President Dan Quayle.

Iowa's first-in-the-nation caucuses are crucial for would-be Presidents. Alexander—with growing support among Bush moderates and Kemp conservatives—is on the path another Southern ex-governor took through Iowa to the Presidency: Jimmy Carter. Alexander hopes to parlay a good Iowa showing into primary victories in New Hampshire and beyond. But that may not be enough to win in '96, because the calendar is front-loaded with big-state primaries. Can Alexander raise the bucks and boost his name recognition to vie with the party stars?

#### CONGRESS

It's either a profile in courage or political suicide. Retiring budget hawk Timothy J. Penny (D-Minn.) and endangered political species Marjorie Margolies-Mezvinsky (D-Pa.) have a plan to curb the holiest entitlement, Social Security. They want to raise the retirement age to 70 by 2013, limit cost-of-living hikes for all but the poor, and end the practice of counting Social Security's surplus to cut the deficit. Margolies-Mezvinsky, whose last-minute vote switch was key to passing Clinton's '93 economic plan, is badly trailing her GOP foe, and her plan is the political equivalent of a "Hail Mary" pass.



CHINA

## BEARS ON A RAMPAGE IN CHINA

Markets are crashing—and some exchanges have shut down

**O**n the trading floor of the Shanghai Securities Exchange, many traders spend their hours staring at the ceiling. These days, they haven't much else to do. Less than a year ago, the stretch of road outside the hulking greystone building housing the exchange was a mob scene of investors fighting for a chance to buy shares. Now, one is more likely to encounter Western backpackers checking into a nearby low-budget hotel.

Throughout China, the euphoric buying mood that once prevailed has turned cold sober. Trading in stocks is anemic. Investors in overseas bonds have taken a pounding. Dozens of futures exchanges have closed.

While markets worldwide have slumped this year, the drop in China has been especially severe. That's partially because of Vice-Premier Zhu Rongji's tight-money policies to cool off the overheated economy. Activity has nearly ceased on many exchanges, where corrupt traders have become the subject of a government crackdown. The turmoil is forcing Chinese officials to reassess their management of capital markets. "The central government had to issue very hard economic controls," says Shanghai Vice-Mayor Xu Kuangdi. "They are worried about a bubble."

The misery is not limited to China. In Hong Kong, the Hang Seng index, which hit a high of 12,201 in January, has floundered below 9,000 for weeks. Gone are the days when anything labeled a "China play" was bid up to dizzy-

ing prices. For instance, prices for Tianjin Bohai Chemical Industry Corp. have plunged 30% since they started trading in May.

The task of restoring order is made more urgent by the continuing crisis in the state sector. Companies that had counted on booming equity markets to buttress their finances now are lowering

their sights. Citing the sluggish market, Shanghai Petrochemical Complex recently said it was indefinitely postponing its long-planned \$25 million

offering in Shanghai, and local officials have lowered their target for new capital to be raised this year by 65%, about \$230 million. Analysts predict Beijing will have to slow the planned flotations of an additional 22 companies ranging from railroads to airlines.

The downturn is sure to slow efforts to create new markets across China. Dozens of new commodity exchanges, which had been a cornerstone in the move toward market pricing of goods, already have been plagued by scandal. Investigators have found traders siphoning deposits to Hong Kong and rigging computers to show phony data. In late June, investigators raided Shanghai traders suspected of losing hundreds of millions of dollars speculating on strategic metals overseas. Authorities have closed the Beijing Petroleum Exchange and banned trading in futures of everything from sugar to steel.

**SILVER LINING.** So far, high-profile scandals have not hit the stock markets. There have been enough shenanigans to make investors wary. Public companies have often been more generous to Chinese shareowners than to foreigners

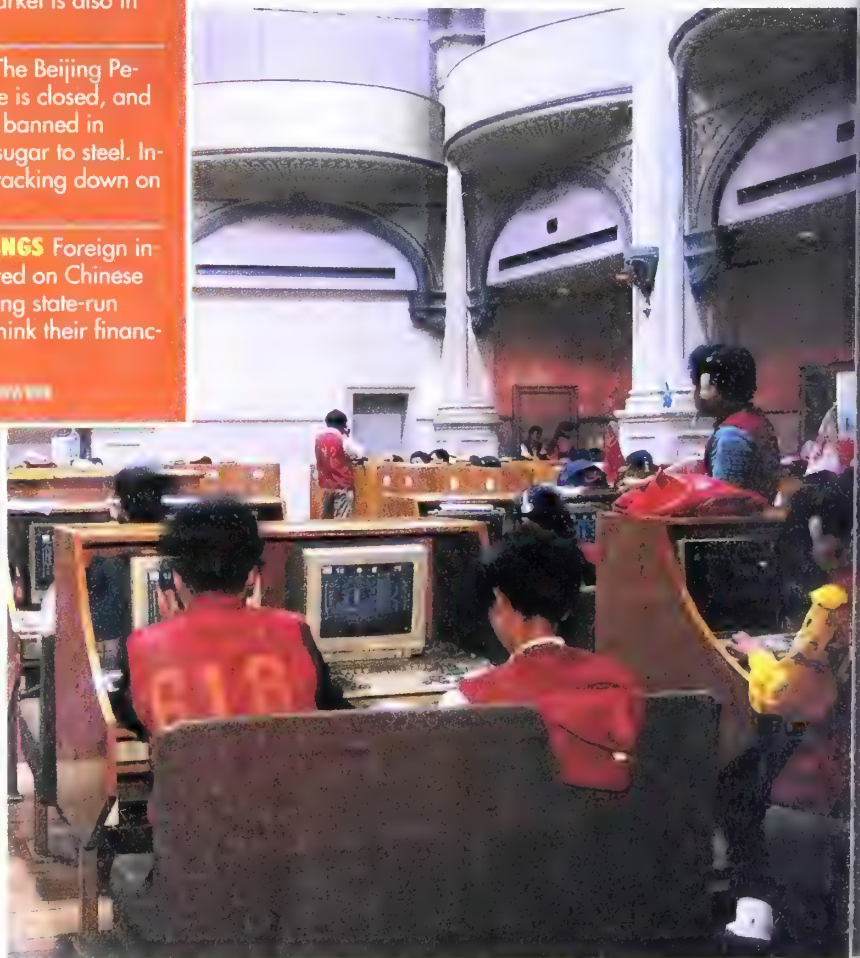
### CHINA'S MARKET MESS

**EQUITIES** The Shanghai market is down two-thirds this year, and trading volume has fallen 75%. The Shenzhen market is also in the doldrums.

**COMMODITIES** The Beijing Petroleum Exchange is closed, and futures trading is banned in everything from sugar to steel. Investigators are cracking down on corruption.

**OVERSEAS LISTINGS** Foreign investors have soured on Chinese "red chips," forcing state-run companies to rethink their financing plans.

**SHANGHAI EXCHANGE: THE CRASH MAY PRED AUTHORITIES TO MOVE FASTER IN SETTING UP NEW REGULATIONS**





mentality is to serve the interests of investors," charges Brian Leung, a Hong Kong-based analyst at W.I. Carr (East) Ltd.

The silver lining is that Chinese investors haven't become so jaded that they distrust all new markets. While the market for China's overseas bonds looks bleak, domestic bonds are thriving. In the past, few investors would touch them because they were illiquid and paid about the rate of inflation. But now that the government has made it easier to trade bonds on secondary markets and pegged yields to inflation, it has raised nearly \$11 billion worth—triple the year's level—with minimal coercion. For the right deal, money managers there still is interest among foreign investors. Billions have been amassed in direct investment funds by such companies as GE Capital Corp. and Goldman Sachs. American Standard Inc., for example, raised \$83 million in May from foreign institutions for a Chinese joint venture to make bathroom fittings. "The deals that make sense are long-term ones that are negotiated privately," says Keith W. Abell, managing partner of Travelers' Greenwich Street Capital Partners Inc. in Hong Kong.

A key test for China stocks will come this year when some of the sound prospects, including China Southern Airlines and Shandong Huaneng Power Development Co., attempt to list in New York. Meanwhile, Chinese authorities are trying to figure out ways to restore their own markets. Half of China's state enterprises are sinking further into debt, valued at total \$20 billion. Finding capital is urgent for Beijing, which has stepped up subsidies to avert bank failures and layoffs.

**SECURITIES BUILDING.** Market officials say that the crash will help them move forward on setting up a regulatory framework for stocks and commodities. In future, where there are some 500 undercapitalized trading houses, the government wants to require that all trading be done in officially sanctioned exchanges with minimum capital requirements, at least full-time brokers, and adequate telecommunications facilities. The government also is stepping up work on laws regulating trading.

Rebuilding confidence will take time. After playing the market, Shanghai factory worker Xu Kangyi lost more than \$2,300—about four months' pay. Xu, who has been forced to sell at a loss just this year, says bitterly, "It's like slashing the meat off a pig." "It's like slashing the meat off a pig," he says bitterly. Regulators have their work cut out convincing investors that the market is safe.

*Pete Engardio and Dave Lindorff in Hong Kong, with William J. Holstein in Shanghai*

## 'I DIDN'T WANT TO KEEP LIVING LIKE THIS'

Reed Elsevier's Peter Davis hoped to run his own show—so he quit

**P**eter Davis looms larger than life in the recent history of Reed International PLC. First the 6-foot, 3-inch executive transformed the London-based company from an underperforming conglomerate to a highly focused publisher of books and specialty magazines such as *Variety*, *Modern Bride*, and *New Scientist*. Then he played a key role in negotiating Reed's 1993 merger with Elsevier, the venerable Dutch publisher of science textbooks and high-priced reference works. The result was Reed Elsevier PLC, one of the world's 10 biggest publish-

ing houses with \$4.3 billion in revenues. Dutch way triumphed over the Anglo-American model of a single top executive. Ian Irvine, the Briton who has replaced Davis as co-chairman, concurs that Davis' belief in the need for a strong company leader didn't jibe with the "more collegial style" of the Dutch.

Davis' resignation comes at a crucial time, just as Reed Elsevier is pondering an even deeper plunge into the U.S. market, which already accounts for a third of revenues. The Anglo-Dutch company is considering one of two potential U.S. acquisitions: Ziff Communications Co., publisher of computer-industry magazines, which could cost some \$2 billion, or Mead Corp.'s Lexis/Nexis information service, which is expected to sell for \$1 billion. Reed Elsevier already paid \$417 million last year for Official Airline Guides, the U.S. publisher of airline schedules. And it took a 49% interest in the American Booksellers Trade Exhibit & Convention, a trade-show company.

**RISK-TAKER.** Even with Davis gone, Reed Elsevier managers remain keenly interested in picking up Ziff or Lexis/Nexis. Yet Davis' zest for big-game hunting is one reason some analysts are relieved he moved on. They worried that Davis would not stop with a big acquisition such as Ziff, especially after the more conservative Vinken retired. "There was an element of risk for investors when Vinken left," says Alastair Smellie, a media analyst with Lehman Brothers Inc. in London. Sources close to the company also say there was a rift over Reed Elsevier's expansion into electronic publishing, with Davis arguing to push ahead more quickly.

The company, for its part, denies that disagreements over the company's strategy had anything to do with Davis' resignation. Says Irvine: "It was purely a personal decision." Whatever the case, Reed Elsevier can withstand a little executive-suite turmoil for now. With pretax profits up 30%, to \$828 million last year, its immediate prospects look larger than life, with or without Davis. The big question is whether the Dutch approach to management will prove nimble enough to exploit the best prospects when they appear.

*By Julia Flynn in London*



DAVIS: A ZEST FOR BIG ACQUISITIONS

ing houses with \$4.3 billion in revenues.

But Davis' strong drive for leadership also helps explain his surprise resignation on June 27. At the time of the merger, Davis had been promised the sole chairmanship when his Dutch co-chairman, Pierre Vinken of Elsevier, retires in 1995. Instead, after months of heated discussion, the board in June decided that Reed Elsevier should be managed collectively by a four-person executive committee, half Dutch and half British. Davis and another executive would oversee strategy and corporate communications, while the committee's two other members would supervise day-to-day operations.

That meant the 52-year-old Davis wouldn't get the chance to run his own show. "There wasn't blood on the carpet," he maintains. "It was more of a feeling that I didn't want to keep living like this." In the end, the more collec-



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## JAPAN'S NEW PREMIER MAY JUST MAKE MATTERS MESSIER

It was perhaps the strangest and most disquieting twist that Japan's recently tumultuous politics has produced since World War II. Late on June 29, the country's parliament elected the nation by electing a dark-horse, hard-left Socialist Prime Minister. Tomiichi Murayama, wild-eyebrowed chair- of the Japan Socialist Party, won a rare and unexpected runoff against former Prime Minister Toshiki Kaifu. The decisive votes came from the conservative Liberal Democratic Party, which ruled Japan for 38 years until mid-1993 and decades ridiculed the Socialists, who haven't been Prime Minister since 1947. The country's TV networks were so unprepared that they had no analysts on hand to interpret the election for viewers.

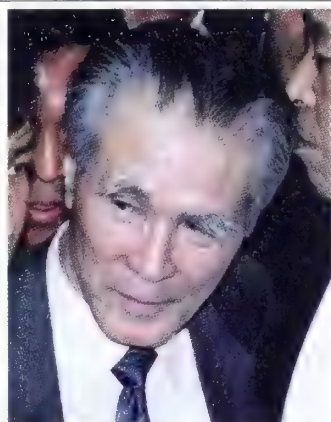
The best that can be said about Murayama's election is that it fills a worrisome void created by the resignation of Prime Minister Tsutomu Matsuura and his Cabinet on June 25 in the wake of a no-confidence motion introduced by the LDP. World leaders were wondering which, if any, of Japan's senior officials would represent the country at the Group of Seven Summit July 8-10 in Naples, Italy. Now they know. But dramatic differences between the Socialists and the LDP portend even more tumult and are likely to undercut Murayama's ability to speak with much authority at the summit.

**GUN MARRIAGE.** Indeed, Murayama could create new friction with the U.S. if he stays for long. The Socialists, for example, fiercely oppose the kind of tax reform and market openings the LDP and the U.S. back to revive Japan's economy. Murayama's crowd also harbors much warm feelings toward North Korea than the LDP and almost everyone else in Japan.

There is little reason to think the currency crisis that has battered the dollar pummeled by the yen will end soon. Japan's current account surplus is continuing to pile up, and traders think that

Murayama is a poor bet to do anything about it. "This is clearly a good reason to sell dollars," says Michael R. Rosenberg, manager of international fixed-income research at Merrill Lynch & Co.

Of course, Murayama's tenure in office may turn out to be brief. The LDP-Socialist alliance is little more than a shotgun marriage that presages further instability. The two parties are going to have a tough time even forming a Cabinet. And several key LDP leaders, including former Prime Ministers Naoto Kan and Yasuhiro Nakasone and former Foreign Minister Michio Watanabe, bolted the LDP voting block out of disgust at their party's cynical ploy to regain power on the back of its age-old enemy.



MURAYAMA COULD GENERATE NEW CONFLICTS WITH THE U.S.

**SHOCK THERAPY.** These renegade LDP kingpins particularly worry that the new coalition will seek early national elections before electoral districts are redrawn under a popular political reform program adopted recently. Such a move would further alienate Japan's already jaded voters, the renegades fear.

Still, some enemies of the victorious alliance are welcoming the LDP-Socialist deal as a shock that will outrage the populace and restore momentum to the stalled reform process. "We feel that Japanese people should be praising politicians for helping to speed the flow of political change," said Kozo Watanabe, a leader of

the reformist Japan Renewal Party, on television. His party is led by Ichiro Ozawa, Japan's most celebrated political visionary and power broker, who is seeking a dramatic realignment.

The reformers would like to see Murayama's government last only a few months—just long enough to complete the redistricting that will hurt both the Socialists and the LDP. They hope that new elections will then lead to a two-party system that might help restore Japanese politics to sanity.

*By Robert Neff in Tokyo*

### BAL WRAPUP

#### ADA-CUBA DEAL

Companies in the U.S. can't cut deals with Cuba because of the embargo, but Canadians are rushing in. In one of the biggest moves yet, Canada's Sherritt Inc. signed a tentative contract with Cuba's General Nickel Co. to form a jointly owned company to mine, process, and market Cuba's rich nickel and cobalt reserves. The new joint venture would include Sherritt's Alta refinery, a Cuban processing plant, and access to Cuban mines with enough reserves to supply operations for an estimated 50 years. Through its Canada Northwest Energy Ltd. unit, Sherritt is also involved in oil produc-

tion and exploration in Cuba and recently announced a new find in the Bay of Cardenas east of Havana.

#### ANTITRUST WIMPS

Mexico's Federal Competition Commission issued its first-ever findings against companies for their monopolistic practices. Twenty companies were named, led by eight financial institutions that were charged with collaborating in auctions of government Treasury certificates. But total fines only added up to about \$750,000—not much of a deterrent. None of Mexico's quasi-monopolies, such as entertainment conglomerate Televisa, made the commission's list.

#### ISRAELI TELECOMS HEAT UP

The once static Israeli telecommunications market is suddenly jumping. The government awarded a cellular phone license to a partnership including BellSouth Corp. and the Brazil branch of the Safra banking family. It is also planning to bring in a big multinational to compete in international phone services with the state-owned phone giant Bezeq Israel Telecommunications. Israel is considered one of the choicest phone markets, ranking 10th in volume of calls to and from the U.S. Sale of 25% of Bezeq on the New York and Tel Aviv exchanges is planned for November.



## THE WORLD'S TOP PLAYERS

THE GLOBAL 1000 RANKINGS REVEAL A RECOVERY BUILT ON RESTRUCTURINGS



**N**ot long ago, such worries as declining competitiveness, overengineered products, and a doubtless recession cast a pall over Germany as it struggled to pull out of its worst economic downturn in decades. But in a year of sometimes wrenching adjustment to the global economy, many of Germany Inc.'s blue-chip companies provided something of a beacon for the rest of Europe. The renewal process underway inside those traditional giants helped point Germany toward the global recovery that is taking hold from Europe to Japan and that is building on the expansion in the U.S. and in booming Southeast Asia.

BUSINESS WEEK's seventh annual Global 1000, which ranks the world's largest companies by market value, reveals a solid 30% gain for Germany Inc., which added five new companies to the list and \$72 billion in total market capitalization. Powerful individual performance by auto makers BMW and Daimler-Benz and capital-goods maker Mannesmann speak for a cyclical upturn in Europe's biggest economy.

**ALTERED STATES.** The German rebound also provides a thematic thread that weaves through much of the list. As recovery rolled outward from the maturing U.S. expansion, investors followed the restructuring trend that took root in the U.S. years ago. But this year, they moved offshore to seek out solid companies that were remaking themselves for global competition. The U.S. itself had just a middling year, losing 24 slots in the rankings while clinging to the 1% share of market value with just a 1% gain vs. last year. Top honors went to General Electric Co., No. 3 on the list, up from No. 5 last year.

The Global 1000, compiled by Geneva-based Morgan Stanley Capital International, tracks some 2,700 companies in 29 countries. The publicly traded companies are ranked on a worldwide basis using market value and other data measured as of May 31, 1994. All valuations



translated into U.S. dollars from local currencies.

J.P. Morgan Stanley has also compiled for the second year a list of market value for the top companies in emerging markets. It's clear that, even after a turbulent year from Buenos Aires to Beijing, investors aren't easily scared. For the second year in a row, Telcel de México tops the list of the decade's world's most valuable companies (page 58).

While investors sought out quality restructuring plays, the list shows they frequently parlayed the privatization sweeping the globe. Privatization pushed the allure of Lufthansa, which is the world's biggest freight carrier

stands to gain from cyclical expansion. And the continuous push into telecommunications companies on even broader appeal with a dash of privatization thrown in. Italy's average share price jumped a hefty 31%, helped in part by the 100% rise in the share price of P, the telephone operating company. The government privatizing, valued at \$6 billion.

The expanding use of digital networks and the service they can provide through phone networks "drew a lot of investors to take a look at overseas tele-," says S.G. Warren Securities (Japan) Inc. analyst Ken Goto. Japan's Nippon Telegraph & Telephone Corp. maintained top honors on the list with a market value of \$128.9 billion,

expectations of more relaxed regulations would move the shares higher. AT&T, ending this year's pending \$12.6 billion offer of McCaw Cellular Communications Inc., fell from second place to seventh with \$73.9 billion.

**RALLY.** Overall, investors made a market-based revaluation of telecommunications that boosted the sector's market value 10%. Vibrant investor interest in digital communications age also led to some spectacular debuts on this year's list. Privatization took Singapore Telecommunications, with a market value of \$34.8 billion, onto the list straight to 26th place. Canada's

Newbridge Networks Corp., a startup eight years ago, also drove the fast lane, racing to 689th.

With the dollar strengthening less than 3% vs. the German mark and weakening less than 2% vs. the yen during the compilation period, the list provides a glimpse of investor preferences relatively free from currency distortions. From that vantage point, the restructuring of German auto companies made them pacesetters for a cyclical upturn that is just now kicking in. "A lot of restructuring benefits are flowing to German companies," says Thomas R. Holmes, managing director for research at Frankfurt private bank Schröder Münchmeyer Hengst. Such verve was

in non-Japanese Asia on property and infrastructure development. Hong Kong's ongoing property boom pushed the Hang Seng index up some 50%. That helped at such companies as Henderson Land Development and Wheelock & Co., which jumped 73% and 105% respectively.

**DRUG BUST.** Still, the billions of dollars that foreign investors poured into Hong Kong as a safe investment in the China market could now prove fickle, figures analyst Nicholas Wong at James Capel Asia. He fears a sharp outflow as China's economy faces threats from soaring inflation and a bitter political succession struggle. In contrast, South Africa's political transition went relatively

smoothly, helping to boost such stocks as Anglo-American Corp. It posted a 53% rise in share price, lifting the country's performance by 43%.

For some corporate giants, the year provided little to celebrate. Pharmaceuticals-sector investors grew skittish as governments tried to cut down drug bills and U.S. health-care reform bogged down. Britain's Glaxo Holdings, plagued with management reshuffling and new generic rivals to its antacid drug Zantac, sank to No. 56 from No. 31.

And in a generally buoyant electronics sector that enjoyed a 30% market value gain, Apple Computer Inc.'s problems with cutthroat competition in personal computers sent it skidding 418 slots, to No. 745, as its market value shrank

48%, to \$3.47 billion. But giant Microsoft Corp. leaped nine places to become the 33rd-largest global company, at \$30.5 billion. Even IBM, which has been under fire for the past few years, climbed up a few rankings, to No. 24, with a \$36.7 billion market capitalization.

Deep restructuring's payoffs is one of the keys to this year's list. As the cyclical upturn spreads, the benefits of boosting productivity, honing market strategy, and plugging in to the digital age should continue to multiply for the giants of the Global 1000 everywhere.

*By Bill Javetski in Paris, with bureau reports*

## HOW THE GIANTS STACK UP

### SALES

Billions of U.S. dollars

|    |                  |         |
|----|------------------|---------|
| 1  | ITOCHU           | \$184.2 |
| 2  | MITSUI & CO.     | 168.6   |
| 3  | MITSUBISHI CORP. | 165.1   |
| 4  | SUMITOMO CORP.   | 162.4   |
| 5  | MARUBENI         | 149.0   |
| 6  | GENERAL MOTORS   | 119.7   |
| 7  | FORD MOTOR       | 108.5   |
| 8  | EXXON            | 99.2    |
| 9  | NISSHO Iwai      | 98.4    |
| 10 | TOYOTA MOTOR     | 97.6    |

### PROFITS

Billions of U.S. dollars

|    |                         |        |
|----|-------------------------|--------|
| 1  | EXXON                   | \$5.28 |
| 2  | ROYAL DUTCH/SHELL GROUP | 4.50   |
| 3  | GENERAL ELECTRIC        | 4.42   |
| 4  | AT&T                    | 4.26   |
| 5  | PHILIP MORRIS           | 3.57   |
| 6  | HSBC HOLDINGS           | 2.73   |
| 7  | BRITISH TELECOM         | 2.67   |
| 8  | FORD MOTOR              | 2.53   |
| 9  | GENERAL MOTORS          | 2.47   |
| 10 | SEARS ROEBUCK           | 2.41   |

### SHARE-PRICE GAIN

Percentage change from 1993 in U.S. dollars

|    |                        |        |
|----|------------------------|--------|
| 1  | MICRON TECHNOLOGY      | 183.6% |
| 2  | NOKIA                  | 142.3  |
| 3  | SKAND. ENSKILDA BANKEN | 137.8  |
| 4  | TECHNOLOGY RESOURCES   | 113.3  |
| 5  | WHELOCK                | 105.4  |
| 6  | COMPAQ COMPUTER        | 104.3  |
| 7  | CITY DEVELOPMENTS      | 102.2  |
| 8  | SIP                    | 100.1  |
| 9  | EMC                    | 96.4   |
| 10 | SAP                    | 92.0   |

### RETURN ON EQUITY

Percentage

|    |                       |        |
|----|-----------------------|--------|
| 1  | DORTSCHE PETROLEUM    | 229.5% |
| 2  | RENTOKIL GROUP        | 87.3   |
| 3  | AVON PRODUCTS         | 81.1   |
| 4  | UST                   | 75.7   |
| 5  | EMC                   | 72.5   |
| 6  | SMITHKLINE BEECHAM    | 65.9   |
| 7  | CUC INTERNATIONAL     | 59.7   |
| 8  | WOLTERS KLUWER        | 58.2   |
| 9  | LEGAL & GENERAL GROUP | 56.6   |
| 10 | CISCO SYSTEMS         | 55.2   |

little in evidence in Britain and France, however.

In Japan, declining interest rates and a Nikkei average 50% above its August, 1992, low boosted values among lenders such as Mitsubishi Bank Ltd. and Industrial Bank of Japan Ltd. Taken together, Japanese banks maintained their grip on 6 of the top 12 spots on this year's list. The country's modest 8.5% gain in overall market value belies strong showings resulting from restructuring at exporting giants and a new consumer dynamic at work in the domestic market.

China's booming economy put the fo-



# The Global 1000 — The Leaders

| RANK |      |                                 | MARKET<br>VALUE | RANK   |      |                          | MARK<br>VALUE                |             |      |
|------|------|---------------------------------|-----------------|--------|------|--------------------------|------------------------------|-------------|------|
| 1994 | 1993 |                                 |                 | 1994   | 1993 |                          |                              |             |      |
|      |      | Billions of U.S. dollars        |                 |        |      | Billions of U.S. dollars |                              |             |      |
| 1    | 1    | NIPPON TELEGRAPH & TELEPHONE    | Japan           | 128.94 | 51   | 37                       | ASAHI BANK                   | Japan       | 25.7 |
| 2    | 3    | ROYAL DUTCH/SHELL GROUP         | Neth./Britain   | 91.93  | 52   | 65                       | SEVEN-ELEVEN JAPAN           | Japan       | 25.4 |
| 3    | 5    | GENERAL ELECTRIC                | U.S.            | 84.94  | 53   | 44                       | NIPPON STEEL                 | Japan       | 24.7 |
| 4    | 6    | MITSUBISHI BANK                 | Japan           | 77.05  | 54   | 56                       | SOUTHWESTERN BELL            | U.S.        | 24.6 |
| 5    | 4    | EXXON                           | U.S.            | 75.92  | 55   | 57                       | MITSUBISHI HEAVY INDUSTRIES  | Japan       | 24.6 |
| 6    | 13   | TOYOTA MOTOR                    | Japan           | 75.06  | 56   | 31                       | GLAXO HOLDINGS               | Britain     | 24.6 |
| 7    | 2    | AT&T                            | U.S.            | 73.87  | 57   | 39                       | KANSAI ELECTRIC POWER        | Japan       | 24.5 |
| 8    | 9    | INDUSTRIAL BANK OF JAPAN        | Japan           | 73.25  | 58   | 53                       | ABBOTT LABORATORIES          | U.S.        | 24.5 |
| 9    | 7    | SUMITOMO BANK                   | Japan           | 67.53  | 59   | 61                       | SIEMENS                      | Germany     | 23.5 |
| 10   | 11   | FUJI BANK                       | Japan           | 66.99  | 60   | 55                       | WALT DISNEY                  | U.S.        | 23.2 |
| 11   | 10   | SANWA BANK                      | Japan           | 63.19  | 61   | 88                       | DAIWA SECURITIES             | Japan       | 23.1 |
| 12   | 12   | DAI-ICHI KANGYO BANK            | Japan           | 59.64  | 62   | 51                       | BELL ATLANTIC                | U.S.        | 22.9 |
| 13   | 8    | WAL-MART STORES                 | U.S.            | 54.01  | 63   | 64                       | FANNIE MAE                   | U.S.        | 22.7 |
| 14   | 14   | COCA-COLA                       | U.S.            | 52.24  | 64   | 80                       | MCDONALD'S                   | U.S.        | 22.5 |
| 15   | 15   | SAKURA BANK                     | Japan           | 47.26  | 65   | 92                       | DAIMLER-BENZ                 | Germany     | 22.5 |
| 16   | 24   | ROCHE HOLDING                   | Switzerland     | 47.26  | 66   | 100                      | BROKEN HILL PROPRIETARY      | Australia   | 22.4 |
| 17   | 20   | NOMURA SECURITIES               | Japan           | 45.38  | 67   | 89                       | UNION BANK OF SWITZERLAND    | Switzerland | 22.3 |
| 18   | 17   | PHILIP MORRIS                   | U.S.            | 43.19  | 68   | 99                       | SONY                         | Japan       | 22.2 |
| 19   | 21   | DUPONT                          | U.S.            | 42.01  | 69   | 91                       | HONG KONG TELECOMMUNICATIONS | Hong Kong   | 22.0 |
| 20   | 16   | TOKYO ELECTRIC POWER            | Japan           | 41.34  | 70   | 48                       | MINNESOTA MINING & MFG.      | U.S.        | 21.8 |
| 21   | 33   | GENERAL MOTORS                  | U.S.            | 38.70  | 71   | 72                       | AMERITECH                    | U.S.        | 21.3 |
| 22   | 22   | PROCTER & GAMBLE                | U.S.            | 38.43  | 72   | 95                       | ITO-YOKADO                   | Japan       | 21.2 |
| 23   | 18   | MERCK                           | U.S.            | 38.25  | 73   | 82                       | NISSAN MOTOR                 | Japan       | 21.0 |
| 24   | 27   | INTERNATIONAL BUSINESS MACHINES | U.S.            | 36.67  | 74   | 101                      | MITSUBISHI TRUST & BANKING   | Japan       | 21.0 |
| 25   | 47   | MATSUSHITA ELECTRIC INDUSTRIAL  | Japan           | 36.65  | 75   | 69                       | DEUTSCHE BANK                | Germany     | 20.9 |
| 26   | NR   | SINGAPORE TELECOMMUNICATIONS    | Singapore       | 34.81  | 76   | 78                       | ASSICURAZIONI GENERALI       | Italy       | 20.6 |
| 27   | 19   | BRITISH TELECOMMUNICATIONS      | Britain         | 33.89  | 77   | 54                       | PFIZER                       | U.S.        | 20.4 |
| 28   | 43   | HITACHI LTD.                    | Japan           | 33.87  | 78   | 74                       | TOKIO MARINE & FIRE          | Japan       | 20.2 |
| 29   | 38   | BANK OF TOKYO                   | Japan           | 32.31  | 79   | 66                       | HOME DEPOT                   | U.S.        | 20.0 |
| 30   | 34   | MOBIL                           | U.S.            | 32.25  | 80   | 62                       | HEWLETT-PACKARD              | U.S.        | 19.8 |
| 31   | 41   | BRITISH PETROLEUM               | Britain         | 31.78  | 81   | 105                      | SUMITOMO TRUST & BANKING     | Japan       | 19.7 |
| 32   | 28   | NESTLE                          | Switzerland     | 31.49  | 82   | 77                       | BTR                          | Britain     | 19.6 |
| 33   | 42   | MICROSOFT                       | U.S.            | 30.51  | 83   | 106                      | NIKKO SECURITIES             | Japan       | 19.3 |
| 34   | 40   | ALLIANZ HOLDING                 | Germany         | 30.16  | 84   | 85                       | HANSON TRUST                 | Britain     | 19.3 |
| 35   | 36   | AMERICAN INTERNATIONAL GROUP    | U.S.            | 29.59  | 85   | NR                       | EAST JAPAN RAILWAY           | Japan       | 19.3 |
| 36   | 45   | BELLSOUTH                       | U.S.            | 29.52  | 86   | 140                      | FUJITSU                      | Japan       | 19.0 |
| 37   | 23   | GTE                             | U.S.            | 29.51  | 87   | 141                      | SHARP                        | Japan       | 19.0 |
| 38   | 35   | AMOCO                           | U.S.            | 29.23  | 88   | 67                       | B.A.T. INDUSTRIES            | Britain     | 19.0 |
| 39   | 26   | UNILEVER                        | Neth./Britain   | 29.15  | 89   | 83                       | BERKSHIRE HATHAWAY           | U.S.        | 18.8 |
| 40   | 46   | FORD MOTOR                      | U.S.            | 28.82  | 90   | 79                       | ELF AQUITAINE                | France      | 18.8 |
| 41   | 30   | PEPSICO                         | U.S.            | 28.76  | 91   | 103                      | DOW CHEMICAL                 | U.S.        | 18.8 |
| 42   | 29   | JOHNSON & JOHNSON               | U.S.            | 28.45  | 92   | 70                       | CHUBU ELECTRIC POWER         | Japan       | 18.8 |
| 43   | 32   | CHEVRON                         | U.S.            | 28.34  | 93   | 97                       | MITSUBISHI CORP.             | Japan       | 18.8 |
| 44   | 25   | BRISTOL-MYERS SQUIBB            | U.S.            | 28.30  | 94   | 93                       | SANDOZ                       | Switzerland | 18.8 |
| 45   | 50   | HSBC HOLDINGS                   | Britain         | 27.97  | 95   | 63                       | AMERICAN HOME PRODUCTS       | U.S.        | 17.7 |
| 46   | 58   | LONG-TERM CREDIT BANK OF JAPAN  | Japan           | 27.21  | 96   | 133                      | CIBA-GEIGY                   | Switzerland | 17.7 |
| 47   | 49   | TOKAI BANK                      | Japan           | 26.37  | 97   | 127                      | SEIBU RAILWAY                | Japan       | 17.7 |
| 48   | 52   | INTEL                           | U.S.            | 26.13  | 98   | 76                       | SEARS, ROEBUCK               | U.S.        | 17.7 |
| 49   | 60   | MOTOROLA                        | U.S.            | 26.05  | 99   | 81                       | US WEST                      | U.S.        | 17.7 |
| 50   | 59   | TOSHIBA                         | Japan           | 25.95  | 100  | 115                      | NEC                          | Japan       | 17.7 |



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## THE EMERGING-MARKET PLAY IS ALIVE AND WELL

Some \$30 billion will go into developing-country stocks this year

**F**or a lesson in the volatility of emerging markets, this year provided a textbook example. After the spectacular runup in stock markets from Brazil to Taiwan last year, the bubble seemed to burst. In Turkey, the roller coaster lifted the price index of Turkish stocks by 500%—then lopped off 25% of those gains this year. In Mexico's bigger market, investors experienced a euphoric 63% rise through January and a 22% decline since then.

Despite the turbulence, shares of most companies from Mexico City to Manila are still riding high, compared with their levels a year ago. For the second year, Morgan Stanley Capital International, based in Geneva, has assembled a list of the top emerging-market companies and ranked them by their market value. Teléfonos de México, the phone giant, tops the list for the second year, weighing in with a \$32.9 billion market value. That's up 28% in the year to May 31. No. 2 honors go to Korea Electric Power Corp., with a \$20.8 billion market capitalization. And Taiwan's Cathay Life Insurance Co. is the third-largest entry.

**THIN MARKETS.** Now, after the recent shakeout, further gains are likely. Investors from the U.S., Europe, and Japan are expected to put more than \$30 billion into the stock markets of capital-hungry developing countries from Latin America to Eastern Europe and even Africa this year, says Michael How-

ell, chief global strategist of London-based Baring Securities Ltd. That's down from last year's phenomenal \$40 billion splurge. But in the sell-off by foreigners, which drove prices down in these relatively thin markets early this year, "the net disinvestment wasn't that big," Howell says. Clearly, the emerging-market play is alive and well.

Added together, the market capitalization of listed stocks in the 25 countries tracked by the International Finance Corp. (IFC), the private-sector arm of the World Bank, reached \$875 billion in May, up from \$485 billion at the beginning of 1993. Privatizations and new issues seem certain to keep pushing the total to new highs. There is a "fairly large backlog of deals to be done" in Asia, says Peter Clarke, Hong Kong-based chairman of Merrill Lynch Asia/Pacific.

What keeps attracting investors from the industrialized world is the prospect of continued fast economic growth in most emerging markets, leading to higher returns. But a key difference this year is that investors are picking emerging-market stocks more carefully. Last year, says Bill Ebsworth, chief invest-

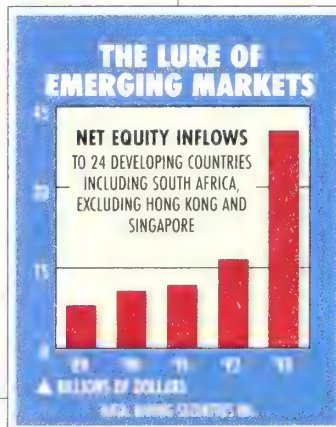
ment officer of Fidelity Investments Hong Kong, simply being in emerging markets was what mattered. "Now there's less liquidity chasing the stocks, and it's far more important to discriminate," says Ebsworth.

**LATIN LOVERS.** In Taiwan and South Korea, however, foreign investors still face limits on their holdings. Foreign holdings in any single company in Taiwan are limited to 10% of total shares. In many foreigners will remain outside, looking in at a promising market. In South Korea, foreign equity investment rose to \$7 billion in 1993, vs. \$3 billion the previous year, but is also capped at 10% of total listed common shares. Meantime, demand for some blue-chip stocks is so high that they are sold at premiums over the counter. Favorites include Samsung Electronics Co. and steadily growing Hyundai Motor Co.

Latin America, too, is enjoying economic growth and drawing in capital despite political doubts about key countries. "Compared with Asia, Latin America is not as dynamic, but it has a somewhat better developed infrastructure and it has a good friend to the north," says Chase Manhattan Bank President Arthur F. Ryan. "That changes your perception and willingness to commit resources." Mexico has political jitters as its August election approaches, but afterwards, investors are expected to return to cash in on renewed growth prospects. Alvaro Shiraishi, an analyst at brokers Bursamex Casa de Bolsa, says construction giants ICA and Tribase are big players in Mexico's infrastructure program.

Brazil also faces electoral uncertainty with leftist Luís Inácio Lula da Silva currently the front-runner. If he wins next fall's election, the stock market will fall, and "that could be the time to buy," says Paulo Vasconcellos, a vice-president at Merrill Lynch's São Paulo unit. Vasconcellos says consumer-goods companies should benefit if Brazil's new president, the real, curbs inflation as expected. Other big attractions are telecommunications holdings, such as company Telebrás and Telecom de São Paulo. Although both are state-run, sizable blocks of shares are publicly traded. The intense scramble for corporate shares in emerging markets seems to promise that investment money will keep flowing.

By John Pearson  
New York, with bureaus



# TOP 100 EMERGING-MARKET COMPANIES

| Company                                | Country     | Market Value<br>(\$ U.S. Btl.) | % Change<br>from 1993 | Company                                | Country     | Market Value<br>(\$ U.S. Btl.) | % Change<br>from 1993 |
|----------------------------------------|-------------|--------------------------------|-----------------------|----------------------------------------|-------------|--------------------------------|-----------------------|
| TELEFONOS DE MEXICO (TELMEX)           | Mexico      | 32.94                          | 28                    | 51. PEREZ COMPANC                      | Argentina   | 3.07                           | 59                    |
| KOREA ELECTRIC POWER                   | Korea       | 20.76                          | 50                    | 52. HINDUSTAN LEVER                    | India       | 3.02                           | 82                    |
| CATHAY LIFE INSURANCE                  | Taiwan      | 14.50                          | 80                    | 53. GRUPO INDUSTRIAL BIMBO             | Mexico      | 2.97                           | 109                   |
| TELEBRAS                               | Brazil      | 11.22                          | 52                    | 54. BARITO PACIFIC TIMBER              | Indonesia   | 2.94                           | NA                    |
| ELETRORBRAS                            | Brazil      | 10.26                          | 112                   | 55. ITC                                | India       | 2.88                           | 67                    |
| GRUPO FINANCIERO BANACCI               | Mexico      | 9.89                           | 43                    | 56. ENERSIS                            | Chile       | 2.88                           | 110                   |
| YPF                                    | Argentina   | 9.29                           | NA                    | 57. TATUNG                             | Taiwan      | 2.86                           | 138                   |
| GRUPO CARSO                            | Mexico      | 9.18                           | 93                    | 58. GRUPO ICA                          | Mexico      | 2.81                           | 46                    |
| HUA NAN BANK                           | Taiwan      | 8.99                           | 65                    | 59. UNITED COMMUNICATION INDUSTRY      | Thailand    | 2.79                           | NA                    |
| GRUPO TELEvisa                         | Mexico      | 8.98                           | 54                    | 60. TAIPEI BUSINESS BANK               | Taiwan      | 2.78                           | 49                    |
| CIFRA                                  | Mexico      | 8.73                           | 43                    | 61. SIAM COMMERCIAL BANK               | Thailand    | 2.70                           | 41                    |
| TELECOMASIA                            | Thailand    | 8.56                           | NA                    | 62. FOMENTO ECONOMICO MEXICANA         | Mexico      | 2.66                           | 33                    |
| TELEFONICA DE ARGENTINA                | Argentina   | 8.51                           | 99                    | 63. FORMOSA CHEMICALS & FIBRE          | Taiwan      | 2.65                           | 56                    |
| FIRST COMMERCIAL BANK                  | Taiwan      | 8.09                           | 43                    | 64. TATA IRON & STEEL                  | India       | 2.55                           | 82                    |
| CEMEX                                  | Mexico      | 7.73                           | 63                    | 65. YUKONG                             | Korea       | 2.53                           | 48                    |
| POHANG IRON & STEEL                    | Korea       | 7.59                           | 147                   | 66. CHINA DEVELOPMENT                  | Taiwan      | 2.53                           | 82                    |
| PETROBRAS                              | Brazil      | 7.50                           | 142                   | 67. BANCO ITAU                         | Brazil      | 2.45                           | 8                     |
| BANGKOK BANK                           | Thailand    | 7.06                           | 48                    | 68. GRUPO FINANCIERO SERFIN            | Mexico      | 2.39                           | -4                    |
| CHANG HWA BANK                         | Taiwan      | 7.01                           | 43                    | 69. UNITED MICRO ELECTRONICS           | Taiwan      | 2.35                           | 167                   |
| SAMSUNG ELECTRONICS                    | Korea       | 6.79                           | 159                   | 70. USIMINAS                           | Brazil      | 2.34                           | 97                    |
| CHINA STEEL                            | Taiwan      | 6.65                           | 11                    | 71. TAIWAN CEMENT                      | Taiwan      | 2.34                           | 14                    |
| TELECOM ARGENTINA                      | Argentina   | 6.36                           | 117                   | 72. ASIA CEMENT                        | Taiwan      | 2.31                           | 8                     |
| SAN MIGUEL                             | Philippines | 6.01                           | 123                   | 73. LIGHT-SERVICIOS DE ELETRICIDADE    | Brazil      | 2.30                           | 66                    |
| ENDESA                                 | Chile       | 5.91                           | 130                   | 74. HYUNDAI ENGINEERING & CONSTRUCTION | Korea       | 2.30                           | 106                   |
| SIAM CEMENT                            | Thailand    | 5.05                           | 143                   | 75. PAPELES Y CARTONES                 | Chile       | 2.27                           | 46                    |
| VALE DO RIO DOCE                       | Brazil      | 4.92                           | 90                    | 76. APASCO                             | Mexico      | 2.27                           | 73                    |
| GRUPO FINANCIERO BANCOMER              | Mexico      | 4.75                           | -11                   | 77. DAEWOO SECURITIES                  | Korea       | 2.18                           | 29                    |
| TELECOMUNICACOES DE SAO PAULO (TELESP) | Brazil      | 4.67                           | 55                    | 78. GRUPO TRIBASA                      | Mexico      | 2.17                           | NA                    |
| TOLMEX                                 | Mexico      | 4.58                           | 59                    | 79. SIDERURGICA NACIONAL               | Brazil      | 2.12                           | NA                    |
| TELEFONOS DE CHILE                     | Chile       | 4.49                           | 41                    | 80. BANGKOK LAND                       | Thailand    | 2.12                           | 23                    |
| COPEC                                  | Chile       | 4.37                           | 102                   | 81. VITRO                              | Mexico      | 2.08                           | 21                    |
| INDOCEMENT TUNGGAL PRAKARSA            | Indonesia   | 4.34                           | 713                   | 82. CEMIG                              | Brazil      | 2.06                           | 92                    |
| NAN YA PLASTICS                        | Taiwan      | 4.28                           | 52                    | 83. EVERGREEN MARINE                   | Taiwan      | 2.03                           | 25                    |
| KIMBERLY CLARK DE MEXICO               | Mexico      | 4.21                           | 110                   | 84. DAEWOO CORP.                       | Korea       | 2.03                           | 16                    |
| BANCO BRADESCO                         | Brazil      | 4.08                           | 40                    | 85. KOREA MOBILE TELECOM               | Korea       | 2.03                           | 181                   |
| MANILA ELECTRIC                        | Philippines | 3.97                           | 162                   | 86. EL PUERTO DE LIVERPOOL             | Mexico      | 2.02                           | 25                    |
| FORMOSA PLASTICS                       | Taiwan      | 3.90                           | 53                    | 87. GRUPO SITUR                        | Mexico      | 2.01                           | 214                   |
| PHILIPPINE LONG DISTANCE TELEPHONE     | Philippines | 3.78                           | 100                   | 88. GUNDANG GARAM                      | Indonesia   | 1.99                           | 746                   |
| THAI FARMERS BANK                      | Thailand    | 3.78                           | 43                    | 89. SHINHAN BANK                       | Korea       | 1.98                           | 8                     |
| INT'L COMMERCIAL BANK OF CHINA         | Taiwan      | 3.76                           | 38                    | 90. DESC                               | Mexico      | 1.97                           | 132                   |
| GOLDSTAR                               | Korea       | 3.44                           | 75                    | 91. ASTRA INTERNATIONAL                | Indonesia   | 1.93                           | 42                    |
| SHINAWATRA COMPUTER & COMMUNS.         | Thailand    | 3.41                           | NA                    | 92. FINANCE ONE                        | Thailand    | 1.93                           | 191                   |
| LAND & HOUSE                           | Thailand    | 3.39                           | 114                   | 93. TATA ENG. & LOCOMOTIVE             | India       | 1.90                           | 217                   |
| EMPRESAS LA MODERNA                    | Mexico      | 3.34                           | NA                    | 94. BROOKE BOND LIPTON INDIA           | India       | 1.86                           | 210                   |
| RELIANCE INDUSTRIES                    | India       | 3.24                           | 111                   | 95. FAR EASTERN TEXTILE                | Taiwan      | 1.85                           | 27                    |
| HYUNDAI MOTOR                          | Korea       | 3.24                           | 63                    | 96. PHILIPPINE NATIONAL BANK           | Philippines | 1.79                           | 115                   |
| THAI AIRWAYS INTERNATIONAL             | Thailand    | 3.17                           | 41                    | 97. CHOHUNG BANK                       | Korea       | 1.79                           | 3                     |
| ADVANCED INFO SERVICE                  | Thailand    | 3.10                           | NA                    | 98. KIA MOTORS                         | Korea       | 1.79                           | 23                    |
| KRUNG THAI BANK                        | Thailand    | 3.09                           | 55                    | 99. CONTROLADORA COMERCIAL MEXICANA    | Mexico      | 1.79                           | 7                     |
| AYALA                                  | Philippines | 3.09                           | 42                    | 100. CHINA AIRLINES                    | Taiwan      | 1.77                           | NA                    |

Not Available

DATA: MORGAN STANLEY CAPITAL INTERNATIONAL



# THE BUSINESS WEEK GLOBAL 1000

## COUNTRY BY COUNTRY

### GLOSSARY

#### MARKET VALUE:

Share price on May 31, 1994, multiplied by latest available number of shares outstanding, translated into U. S. dollars at May month-end exchange rates. Market value may include several classes of stock; price and yield data are based on the company's most widely held issue.

#### SHARE PRICE AND ANNUAL CHANGE:

Closing per-share price on May 31, 1994, in U. S. dollars. Annual percent change from May 31, 1993, to May 31, 1994, both in U. S. dollars and in each company's local currency.

#### PRICE/BOOK VALUE RATIO:

The ratio of May closing price to latest available

net worth per share or common shareholders' equity investment.

#### PRICE/EARNINGS RATIO:

The ratio of May closing price to latest 12 months' earnings per share.

#### YIELD:

Latest 12 months' dividends per share as a percent of May closing price.

#### SALES:

Net sales reported by company, translated at May 31 exchange rates; revenues for banks and other financial institutions are not included because they are not comparable to those of industrial companies.

#### PROFITS:

Latest aftertax earnings available to common

shareholders, translated at May 31 currency exchange rates; profits are from companies' continuing operations before extraordinary items. Sales, profits, and assets are for 1994 fiscal year unless noted.

#### RETURN ON EQUITY:

Latest 12-months' earnings per share as percent of most recent book value per share.

#### INDUSTRY CODE:

For key to the two-digit code, see page 76.

Data for individual companies: Morgan Stanley Capital International, unless otherwise indicated. For further information on MSCI data, contact Morgan Stanley & Co. at 212 703-8285 (New York) or 071-425-6663 (London). Country composites and rankings calculated by BUSINESS WEEK. Additional data by Standard & Poor's Compustat, a division of McGraw-Hill Inc. if footnote

| COUNTRY RANK            | GLOBAL 1000 RANK | MARKET VALUE U.S. \$ MIL. | PRICE PER SHARE U.S. \$ | % CHANGE FROM 1993 (U.S. \$) | PRICE/BOOK VALUE RATIO | P/E RATIO | YIELD %    | SALES U.S. \$ MIL. | PROFITS U.S. \$ MIL. | ASSETS U.S. \$ MIL. | RETURN ON EQUITY % |
|-------------------------|------------------|---------------------------|-------------------------|------------------------------|------------------------|-----------|------------|--------------------|----------------------|---------------------|--------------------|
| <b>GLOBAL COMPOSITE</b> | <b>85892234</b>  | <b>128</b>                | <b>31</b>               | <b>33</b>                    | <b>3.2</b>             | <b>35</b> | <b>2.3</b> | <b>8522234</b>     | <b>330822</b>        | <b>28296344</b>     | <b>13.2</b>        |

### AUSTRALIA

|                                          |               |          |           |           |            |           |            |              |             |               |             |
|------------------------------------------|---------------|----------|-----------|-----------|------------|-----------|------------|--------------|-------------|---------------|-------------|
| <b>COUNTRY COMPOSITE</b>                 | <b>108648</b> | <b>6</b> | <b>26</b> | <b>16</b> | <b>1.7</b> | <b>16</b> | <b>3.8</b> | <b>65725</b> | <b>5734</b> | <b>326363</b> | <b>11.0</b> |
| 1 Broken Hill Proprietary                | 66            | 22490    | 13        | 40        | 29         | 2.7       | 2.4        | 11759        | 731         | 19358         | 10.4        |
| 2 News Corp.                             | 159           | 12758    | 7         | 31        | 20         | 1.3       | 0.3        | 7886         | 722         | 20118         | 8.8         |
| 3 National Australia Bank                | 188           | 11647    | 9         | 31        | 20         | 1.7       | 11         | NA           | 790         | 86532         | 15.3        |
| 4 CRA                                    | 305           | 7941     | 13        | 53        | 40         | 2.1       | 15         | 4375         | 528         | 6617          | 14.2        |
| 5 Westpac Banking                        | 402           | 6125     | 3         | 36        | 24         | 1.2       | 12         | NA           | 293         | 77278         | 9.5         |
| 6 BTR Nylex                              | 406           | 6096     | 2         | 8         | -1         | 1.7       | 21         | 4583         | 296         | 6259a         | 8.5c        |
| 7 Western Mining                         | 450           | 5551     | 6         | 48        | 36         | 2.4       | 37         | 1007         | 137         | 3054          | 6.5         |
| 8 Commonwealth Bank of Australia         | 477           | 5222     | 6         | 6         | -3         | 1.2       | 11         | NA           | 428         | 67            | 11.4        |
| 9 Amcor                                  | 580           | 4290     | 7         | 29        | 19         | 2.0       | 20         | 3561         | 197         | 3694          | 10.3        |
| 10 Australia & New Zealand Banking Group | 590           | 4224     | 3         | 27        | 17         | 1.1       | 9          | NA           | 309         | 73751         | 12.1        |
| 11 Coles Myer                            | 617           | 4079     | 3         | -8        | -16        | 1.7       | 13         | 11194        | 316         | 4601          | 13.4        |
| 12 Pacific Dunlop                        | 703           | 3578     | 3         | 13        | 4          | 2.1       | 16         | 4653         | 199         | 4760          | 13.4        |
| 13 M.I.M. Holdings                       | 780           | 3295     | 2         | 59        | 46         | 1.6       | LOSS       | 1423         | 53          | 4350          | NEG         |
| 14 CSR                                   | 800           | 3207     | 4         | 16        | 6          | 1.3       | 15         | 3956b        | 219b        | 4719          | 8.9c        |
| 15 Fosters Brewing Group                 | 903           | 2822     | 1         | 8         | -1         | 1.5       | 14         | 7364         | 195         | 5439          | 10.7        |
| 16 Boral                                 | 909           | 2812     | 3         | 29        | 19         | 1.3       | 12         | 3111         | 169         | 3531          | 11.2        |
| 17 Lend Lease                            | 998           | 2511     | 12        | 25        | 15         | 1.8       | 16         | 853          | 152         | 2232          | 11.5        |

### AUSTRIA

| COUNTRY COMPOSITE |                          | 7506 | 72   | 9  | 12 | 1.5 | 80  | 0.8 | NA  | 140 | 106523 | 2.7    |     |
|-------------------|--------------------------|------|------|----|----|-----|-----|-----|-----|-----|--------|--------|-----|
| 1                 | Bank Austria             | 509  | 4882 | 85 | -4 | -1  | 2.0 | 46  | 0.8 | NA  | 119    | 50803  | 4.4 |
| 2                 | Creditanstalt-Bankverein | 969  | 2624 | 60 | 21 | 24  | 1.1 | 115 | 0.9 | NA  | 22a    | 55721a | 0.9 |

### BELGIUM

| COUNTRY COMPOSITE |                              |     | 44281 | 209 | 18 | 21 | 1.4 | 17   | 4.4 | 37390 | 2714 | 349159 | 9.8   |
|-------------------|------------------------------|-----|-------|-----|----|----|-----|------|-----|-------|------|--------|-------|
| 1                 | Electrabel                   | 259 | 9172  | 169 | -4 | -1 | 1.5 | 12   | 7.3 | 5830a | 737a | 13302a | 12.8c |
| 2                 | Petrofina                    | 324 | 7431  | 320 | 25 | 29 | 2.0 | 36   | 2.6 | 16541 | 205  | 10613  | 5.4   |
| 3                 | Société Générale de Belgique | 534 | 4669  | 72  | 18 | 22 | 1.0 | 18   | 4.7 | NA    | 257  | 8469   | 5.3   |
| 4                 | Tractebel                    | 598 | 4179  | 306 | 10 | 14 | 1.6 | 14   | 4.4 | 7795  | 291  | 16222a | 10.8c |
| 5                 | Solvay                       | 662 | 3852  | 465 | 35 | 39 | 1.3 | LOSS | 4.3 | 7225  | -207 | 7771a  | NEG   |
| 6                 | Générale de Banque           | 737 | 3484  | 241 | 7  | 10 | 1.3 | 10   | 5.6 | NA    | 343  | 108900 | 12.6  |
| 7                 | Groupe Bruxelles Lambert     | 835 | 3082  | 131 | 33 | 37 | 1.5 | 16   | 4.4 | NA    | 189  | 4069a  | 9.1c  |
| 8                 | Kredietbank                  | 882 | 2930  | 201 | 3  | 6  | 1.3 | 10   | 4.0 | NA    | 287  | 68239a | 12.8c |
| 9                 | Electrafina                  | 919 | 2783  | 109 | 47 | 52 | 1.5 | 23   | 3.6 | NA    | 79a  | 2277a  | 6.5c  |
| 10                | AG Group (5)                 | NR  | 2699  | 79  | 3  | 6  | 1.4 | 11   | 2.9 | NA    | 533  | 109298 | 12.6c |

\* Based on nonconsolidated results. a) Based on 1992 data. b) Based on 1994 data. c) Difference between earnings and book value data between 12 and 18 months. d) Partial year data because of fiscal-year change. 1) Global ranking calculated for Royal Dutch/Shell Group, combining market value of the Netherlands' Royal Dutch Petroleum and Britain's Shell Transport & Trading. 2) Global ranking calculated for Unilever by combining market value of the Netherlands' Unilever NV and Unilever PLC. 3) Global ranking calculated for ABB Asea Brown Boveri by combining market value of Sweden's ASEA and Switzerland's BBC Brown Boveri. 4) Global ranking calculated for Reed Elsevier by combining market value at Britain's Inf'l and the Netherlands' Elsevier. 5) Global ranking calculated for Fortis by combining market value of Belgium's AG Group and the Netherlands' AMEV. 6) Global ranking calculated for Eurotunnel by combining market value of Eurotunnel (London) and Eurotunnel (Paris). Sales, profits, and assets in the individual country listings are for the six combined companies above; share price and relative ratios are for separate companies. 7) Data for this company provided by Standard & Poor's Compustat, a division of McGraw-Hill Inc. Unless otherwise noted, all other data provided by Morgan Stanley Capital International. LOSS = Negative ratio. NA = Not available. NEG = Negative return. NR = Not meaningful. NR = Not meaningful.

# THE GLOBAL 1000

|                                     | GLOBAL<br>1000<br>RANK | MARKET<br>VALUE<br>U.S.<br>\$ MIL. | PRICE<br>PER SHARE<br>U.S. \$ | % CHANGE<br>FROM 1993<br>(U.S. \$) | PRICE/<br>BOOK<br>VALUE<br>RATIO | P/E<br>RATIO | YIELD<br>% | SALES<br>U.S.<br>\$ MIL. | PROFITS<br>U.S.<br>\$ MIL. | ASSETS<br>U.S.<br>\$ MIL. | RETURN<br>ON<br>EQUITY<br>% | INDUSTRY<br>CODE |
|-------------------------------------|------------------------|------------------------------------|-------------------------------|------------------------------------|----------------------------------|--------------|------------|--------------------------|----------------------------|---------------------------|-----------------------------|------------------|
| <b>COMPOSITE</b>                    |                        | <b>724715</b>                      | <b>7</b>                      | <b>6</b>                           | <b>9</b>                         | <b>3.0</b>   | <b>18</b>  | <b>4.0</b>               | <b>671317</b>              | <b>49376</b>              | <b>2179685</b>              | <b>19.1</b>      |
| Transport & Trading (1)             | NR                     | 35275                              | 11                            | 13                                 | 16                               | 1.7          | 22         | 4.3                      | 95173                      | 4497                      | 99830                       | 7.7 11           |
| Telecommunications                  | 27                     | 33893                              | 5                             | -17                                | -14                              | 1.8          | 13         | 5.8                      | 20657b                     | 2669b                     | 32085                       | 14.4c 55         |
| Petroleum                           | 31                     | 31781                              | 6                             | 21                                 | 25                               | 2.2          | 37         | 2.9                      | 52795                      | 927                       | 46853                       | 5.9 11           |
| C Holdings                          | 45                     | 27969                              | 11                            | 11                                 | 15                               | 2.0          | 10         | 4.0                      | NA                         | 2728                      | 311254                      | 19.4 61          |
| ko Holdings                         | 56                     | 24601                              | 8                             | -15                                | -12                              | 5.0          | 12         | 5.6                      | 7447                       | 1823                      | 11266                       | 41.0 45          |
|                                     | 82                     | 19617                              | 6                             | 1                                  | 4                                | 6.2          | 16         | 4.1                      | 14761                      | 1219                      | 13597                       | 39.7 71          |
| son Trust                           | 84                     | 19349                              | 4                             | 7                                  | 11                               | 3.2          | 15         | 5.7                      | 14743                      | 1091                      | 36340                       | 22.0 71          |
| T. Industries                       | 88                     | 19015                              | 6                             | -8                                 | -5                               | 2.5          | 10         | 6.2                      | 17792                      | 1766                      | 59325                       | 24.8 71          |
| sh Gas                              | 103                    | 17302                              | 4                             | -12                                | -9                               | 1.6          | 13         | 6.9                      | 15689                      | 1356                      | 27616                       | 12.2 12          |
| ks & Spencer                        | 107                    | 16354                              | 6                             | 14                                 | 18                               | 3.7          | 19         | 2.9                      | 9879b                      | 873b                      | 7085                        | 19.5c 54         |
| hKline Beecham                      | 126                    | 14924                              | 6                             | -23                                | -20                              | 8.4          | 13         | 3.7                      | 9311                       | 1175                      | 8215                        | 65.9 45          |
| le & Wireless                       | 133                    | 14522                              | 7                             | 15                                 | 19                               | 3.1          | 18         | 2.4                      | 7098b                      | 776b                      | 9819                        | 16.9c 55         |
| ness                                | 135                    | 14479                              | 7                             | -1                                 | 2                                | 2.6          | 15         | 3.4                      | 7044                       | 909                       | 12113                       | 17.2c 43         |
| nd Metropolitan                     | 139                    | 13956                              | 7                             | 8                                  | 12                               | 2.4          | 15         | 3.8                      | 12266                      | 926                       | 14144a                      | 16.4c 71         |
|                                     | 152                    | 13141                              | 13                            | 22                                 | 26                               | 2.8          | 24         | 3.0                      | 7284                       | 563                       | 9012                        | 11.8 24          |
| lays Bank                           | 167                    | 12397                              | 8                             | 7                                  | 10                               | 1.5          | 26         | 3.8                      | NA                         | 473                       | 250767                      | 5.9 61           |
| eral Electric Co.                   | 168                    | 12394                              | 5                             | -9                                 | -5                               | 2.6          | 15         | 4.3                      | 14215                      | 810                       | 9172                        | 17.5 34          |
| ever PLC (2)                        | NR                     | 12392                              | 15                            | -4                                 | -1                               | 4.1          | 15         | 3.1                      | 41960                      | 1952                      | 25979                       | 28.2c 44         |
| ters Holdings                       | 190                    | 11462                              | 7                             | 32                                 | 36                               | 9.3          | 25         | 1.8                      | 2831                       | 452                       | 2313a                       | 36.3c 52         |
| tional Westminster Bank             | 205                    | 10735                              | 6                             | -11                                | -8                               | 1.4          | 12         | 5.4                      | NA                         | 881                       | 230076                      | 11.1 61          |
| ds Bank                             | 214                    | 10445                              | 8                             | -3                                 | 0                                | 2.2          | 11         | 5.2                      | NA                         | 914                       | 108211                      | 19.9 61          |
| ainsbury                            | 227                    | 9906                               | 6                             | -27                                | -24                              | 2.1          | 12         | 3.6                      | 16955b                     | 813b                      | 7979                        | 17.7c 54         |
| eca Group                           | 234                    | 9712                               | 10                            | 4                                  | 8                                | 4.0          | 14         | 5.1                      | 6707                       | 642                       | 7495                        | 29.5 45          |
| ed-Lyons                            | 257                    | 9183                               | 9                             | 8                                  | 12                               | 2.2          | 16         | 4.8                      | 7178b                      | 489b                      | 9305                        | 13.8c 43         |
| at Universal Stores                 | 267                    | 8796                               | 9                             | 36                                 | 41                               | 1.7          | 17         | 2.5                      | 4245                       | 478                       | 6446                        | 10.0 54          |
| erial Chemical Industries           | 272                    | 8726                               | 12                            | 27                                 | 32                               | 1.5          | 38         | 4.3                      | 12734                      | 222                       | 13941                       | 4.0 22           |
| ofone Group                         | 290                    | 8163                               | 8                             | 20                                 | 24                               | 9.0          | 23         | 1.8                      | 1003                       | 335                       | 1313                        | 38.8 55          |
| tional Power                        | 293                    | 8123                               | 6                             | 16                                 | 20                               | 2.3          | 11         | 3.7                      | 5500b                      | 721b                      | 6908                        | 20.6c 12         |
| ts                                  | 299                    | 8011                               | 8                             | 12                                 | 16                               | 3.6          | 20         | 3.5                      | 5985                       | 422                       | 4224                        | 18.3 54          |
| ential                              | 310                    | 7862                               | 4                             | -18                                | -15                              | 6.6          | 13         | 6.0                      | 11927                      | 598                       | 97926                       | 50.4 63          |
| ey National                         | 317                    | 7743                               | 6                             | -8                                 | -5                               | 1.5          | 13         | 4.5                      | NA                         | 589                       | 126589                      | 11.5 61          |
| lcome                               | 336                    | 7240                               | 8                             | -31                                | -28                              | 3.0          | 11         | 4.8                      | 3083                       | 631                       | 3761                        | 27.3 45          |
| International (4)                   | 346                    | 7118                               | 14                            | 18                                 | 22                               | 2.3          | 20         | 2.2                      | 1438                       | 319                       | 4971                        | 11.3 52          |
|                                     | NR                     | 6929                               | 12                            | 23                                 | 28                               | 3.2          | 23         | 2.9                      | 4194                       | 594                       | 6216                        | 13.8c 51         |
| n EMI                               | 356                    | 6889                               | 8                             | 10                                 | 13                               | 1.3          | 14         | 5.1                      | 6724                       | 474                       | 9211                        | 9.6 43           |
|                                     | 381                    | 6421                               | 16                            | 14                                 | 18                               | 8.8          | 19         | 4.1                      | 6483b                      | 336b                      | 4811                        | 45.6c 41         |
| o                                   | 392                    | 6267                               | 3                             | -8                                 | -5                               | 1.5          | 11         | 4.6                      | 13968b                     | 592b                      | 7511b                       | 13.8 54          |
| bury Schweppes                      | 432                    | 5805                               | 7                             | 3                                  | 7                                | 2.7          | 15         | 3.9                      | 5627                       | 358                       | 4474a                       | 17.8c 44         |
| nsular & Oriental Steam Navigation  | 437                    | 5718                               | 10                            | 3                                  | 6                                | 1.5          | 9          | 6.0                      | 8680                       | 598                       | 9737                        | 16.0 58          |
| fisher                              | 460                    | 5462                               | 8                             | 9                                  | -6                               | 3.3          | 15         | 3.4                      | 6766b                      | 348b                      | 4294b                       | 22.8 54          |
| erGen                               | 462                    | 5422                               | 7                             | 22                                 | 27                               | 2.1          | 12         | 3.2                      | 4816                       | 431                       | 4856                        | 17.6 12          |
| sh Airways                          | 467                    | 5354                               | 6                             | 18                                 | 22                               | 2.1          | 17         | 3.7                      | 8408                       | 269                       | 9597                        | 12.6 56          |
| Group                               | 485                    | 5108                               | 11                            | 4                                  | 8                                | 2.3          | 17         | 4.1                      | 4634                       | 347                       | 5718                        | 13.3 22          |
| erson                               | 490                    | 5074                               | 9                             | 39                                 | 44                               | 3.4          | 23         | 2.7                      | 2825                       | 224                       | 2901                        | 14.9 51          |
| Group                               | 496                    | 4993                               | 3                             | 9                                  | 13                               | 1.9          | 13         | 4.6                      | NA                         | 340                       | 47462                       | 14.3 61          |
| d Securities                        | 498                    | 4971                               | 10                            | 13                                 | 17                               | 1.3          | 18         | 4.7                      | NA                         | 273b                      | 6686                        | 7.1c 64          |
| al Bank of Scotland Group           | 503                    | 4930                               | 6                             | 39                                 | 43                               | 1.7          | 16         | 3.7                      | NA                         | 187                       | 54824                       | 10.5 61          |
| k Organisation                      | 520                    | 4774                               | 6                             | 29                                 | 33                               | 2.1          | 20         | 4.1                      | 3182                       | 223                       | 4483                        | 10.6 53          |
| ome Luxury Group                    | 535                    | 4654                               | 7                             | NA                                 | NA                               | NA           | 20         | 1.7                      | 1527                       | 227                       | NA                          | NA 46            |
| mercial Union Assurance             | 566                    | 4418                               | 8                             | -11                                | -8                               | 1.3          | 14         | 5.9                      | 9018                       | 258                       | 39255                       | 9.0 63           |
| ish Power                           | 577                    | 4306                               | 5                             | 5                                  | 9                                | 3.6          | 11         | 4.4                      | 2372b                      | 389b                      | 2266                        | 32.2c 12         |
| ish & Newcastle Breweries           | 607                    | 4118                               | 8                             | 16                                 | 20                               | 1.5          | 16         | 4.1                      | 2287                       | 208                       | 3612                        | 9.7 43           |
| sh Steel                            | 611                    | 4113                               | 2                             | 37                                 | 42                               | 0.7          | LOSS       | 1.4                      | 7678                       | -196                      | 8656                        | NEG 25           |
| yll Group                           | 622                    | 4020                               | 4                             | -33                                | -31                              | 1.6          | 10         | 6.1                      | 7849                       | 457                       | 4891                        | 15.4c 54         |
| cape                                | 652                    | 3888                               | 7                             | 19                                 | -16                              | 3.3          | 14         | 3.8                      | 8877                       | 266                       | 4770                        | 23.1 59          |
| nada Group                          | 657                    | 3874                               | 7                             | 19                                 | 23                               | 5.1          | 19         | 2.2                      | 2440                       | 171                       | 2529                        | 26.5 53          |
| tbread                              | 659                    | 3872                               | 8                             | 4                                  | 8                                | 1.2          | 15         | 4.6                      | 3566b                      | 246b                      | 4695                        | 7.8c 43          |
| land                                | 665                    | 3831                               | 7                             | -2                                 | 1                                | 2.0          | 19         | 6.4                      | 3737                       | 194                       | 4983                        | 10.4 21          |
| eral Accident Fire & Life Assurance | 668                    | 3787                               | 8                             | -4                                 | -1                               | 1.0          | 10         | 6.2                      | 6317                       | 340                       | 23693                       | 9.8 63           |
| kins                                | 675                    | 3739                               | 3                             | -6                                 | -3                               | 3.1          | 15         | 3.7                      | 3112                       | 173                       | 2807                        | 20.7 71          |
| nnans International                 | 687                    | 3688                               | 6                             | NA                                 | NA                               | NA           | 11         | 4.3                      | 3644                       | 319                       | NA                          | NA 43            |
| pe                                  | 697                    | 3592                               | 8                             | 17                                 | 21                               | 2.4          | 19         | 2.3                      | 2447                       | 160                       | 3236                        | 12.3 71          |
| ociated British Foods               | 698                    | 3592                               | 8                             | 9                                  | 13                               | 1.3          | 10         | 3.5                      | 6625                       | 344                       | 4450                        | 12.4 44          |
| Alliance & London Insurance         | 705                    | 3574                               | 4                             | -12                                | -9                               | 1.3          | 13         | 6.3                      | 6837                       | 271                       | 13719                       | 9.5 63           |
| ards Abbey Life                     | 710                    | 3562                               | 5                             | -21                                | -19                              | 1.9          | 11         | 6.6                      | 2092                       | 326                       | 18289                       | 17.4 63          |
| andard Chartered                    | 735                    | 3491                               | 4                             | 27                                 | 31                               | 1.9          | 11         | 3.1                      | NA                         | 308                       | 48172                       | 17.2 61          |
| skitt & Colman                      | 760                    | 3385                               | 9                             | 1                                  | 4                                | 3.7          | 13         | 3.7                      | 3166                       | 255                       | 2648a                       | 27.5c 44         |
| o Wiggins Appleton                  | 774                    | 3335                               | 4                             | 47                                 | 52                               | 1.9          | 36         | 3.0                      | 4119                       | 92                        | 3713                        | 5.2 23           |
| s-Royce                             | 775                    | 3334                               | 3                             | 24                                 | 28                               | 1.8          | 30         | 3.5                      | 5314                       | 95                        | 4991                        | 5.9 31           |
| ste Management International        | 779                    | 3299                               | 9                             | -13                                | -11                              | 5.7          | 22         | 0.0                      | 1421                       | 150                       | 1648a                       | 26.0c 52         |
| water                               | 807                    | 3167                               | 6                             | -16                                | -13                              | 3.8          | 15         | 3.7                      | 3226                       | 204                       | 2851                        | 25.5 23          |
| rtaulds                             | 817                    | 3149                               | 8                             | -7                                 | -3                               | 3.9          | 13         | 3.4                      | 3161                       | 216                       | 2239                        | 29.1 22          |
| seley                               | 818                    | 3148                               | 12                            | 19                                 | 23                               | 4.6          | 18         | 2.3                      | 3763                       | 122                       | 1974                        | 25.2 21          |

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| COUNTRY RANK      |                                    | GLOBAL 1000 RANK | MARKET VALUE U.S. \$ MIL. | PRICE PER SHARE U.S. \$ | % CHANGE FROM 1993 (U.S. \$) | (LOCAL) | PRICE/BOOK VALUE RATIO | P/E RATIO | YIELD % | SALES U.S. \$ MIL. | PROFITS U.S. \$ MIL. | ASSETS U.S. \$ MIL. | RET. C. EQUITY % |
|-------------------|------------------------------------|------------------|---------------------------|-------------------------|------------------------------|---------|------------------------|-----------|---------|--------------------|----------------------|---------------------|------------------|
| 74                | Williams Holdings                  | 827              | 3102                      | 5                       | 13                           | 17      | 4.1                    | 18        | 4.5     | 1832               | 145                  | 1522                | 22               |
| 75                | Bank of Scotland                   | 838              | 3070                      | 3                       | 23                           | 27      | 1.9                    | 14        | 3.6     | NA                 | 214b                 | 46448b              | 12               |
| 76                | Blue Circle Industries             | 847              | 3043                      | 4                       | 12                           | 16      | 2.3                    | 20        | 4.8     | 2536               | 151                  | 3400                | 11               |
| 77                | Legal & General Group              | 848              | 3036                      | 6                       | -16                          | -13     | 7.6                    | 13        | 6.1     | NA                 | 225                  | 34230a              | 56c              |
| 78                | Rentokil Group                     | 850              | 3035                      | 3                       | 3                            | 7       | 18.5                   | 21        | 1.7     | 907                | 143                  | 566                 | 8                |
| 79                | GKN                                | 855              | 3026                      | 9                       | 26                           | 30      | 2.0                    | 40        | 4.4     | 3987               | 58                   | 2517                | 5                |
| 80                | Enterprise Oil                     | 862              | 2992                      | 6                       | -17                          | -14     | 2.1                    | 24        | 5.0     | 825                | 119                  | 3756                | 8                |
| 81                | Carlton Communications             | 863              | 2992                      | 13                      | 12                           | 15      | 4.1                    | 20        | 2.8     | 1648               | 126                  | 1481                | 21               |
| 82                | Forte                              | 867              | 2987                      | 3                       | 14                           | 18      | 0.9                    | 22        | 4.1     | 3181b              | 130b                 | 6050b               | 3                |
| 83                | Ladbroke Group                     | 884              | 2915                      | 3                       | -8                           | -5      | 0.9                    | 73        | 4.4     | 6448               | 39                   | 6251                | 1                |
| 84                | Thames Water                       | 906              | 2819                      | 7                       | -9                           | -6      | 1.1                    | 8         | 5.7     | 1576               | 347                  | 4441                | 10               |
| 85                | MEPC                               | 914              | 2796                      | 7                       | 5                            | 8       | 1.1                    | 29        | 5.6     | NA                 | 79                   | 4890                | 3                |
| 86                | Caradon                            | 922              | 2768                      | 5                       | 4                            | 8       | 4.0                    | 10        | 3.6     | 1451               | 238                  | 1711                | 40               |
| 87                | Sears                              | 941              | 2699                      | 2                       | 16                           | 20      | 1.6                    | 20        | 3.9     | 3045b              | 134b                 | 2873                | 8c               |
| 88                | Severn Trent                       | 946              | 2683                      | 7                       | -2                           | 1       | 0.9                    | 7         | 5.5     | 1367               | 375                  | 4773                | 12               |
| 89                | North West Water Group             | 948              | 2679                      | 7                       | -1                           | 3       | 1.0                    | 7         | 5.8     | 1396b              | 393b                 | 4554                | 13c              |
| 90                | RMC Group                          | 961              | 2643                      | 13                      | 17                           | 21      | 2.2                    | 23        | 3.0     | 4788               | 117                  | 3736                | 9                |
| 91                | British Aerospace                  | 966              | 2632                      | 7                       | 32                           | 36      | 1.2                    | LOSS      | 2.3     | 16254              | -355                 | 15473               | NI               |
| 92                | TI Group                           | 985              | 2566                      | 6                       | 10                           | 14      | 5.9                    | 20        | 3.9     | 2104               | 127                  | 1931                | 29               |
| 93                | United Biscuits (Holdings)         | 988              | 2557                      | 5                       | -22                          | -19     | 2.3                    | 13        | 5.9     | 5204               | 191                  | 2919                | 17               |
| 94                | Burmah Castrol                     | 990              | 2535                      | 13                      | 18                           | 22      | 2.9                    | 16        | 4.0     | 4166               | 154                  | 2900                | 18               |
| 95                | Eurotunnel (London) (6)            | NR               | 1501                      | 6                       | -10                          | -7      | 1.6                    | LOSS      | 0.0     | NA                 | -3                   | 14463               | NI               |
| CANADA            |                                    |                  |                           |                         |                              |         |                        |           |         |                    |                      |                     |                  |
| COUNTRY COMPOSITE |                                    | 117970           | 24                        | 6                       | 15                           | 2.8     | 45                     | 2.7       | 76361   | 3171               | 597055               | 11                  |                  |
| 1                 | Seagram                            | 196              | 11052                     | 30                      | 3                            | 12      | 2.2                    | 29        | 1.9     | 6038b              | 379b                 | 11718b              | NI               |
| 2                 | BCE (Bell Canada Enterprises)      | 202              | 10863                     | 35                      | 1                            | 10      | 1.6                    | LOSS      | 5.5     | 14305              | -541                 | 26450               | NI               |
| 3                 | Northern Telecom                   | 314              | 7820                      | 31                      | -13                          | -6      | 2.6                    | 111       | 1.2     | 8148               | 56                   | 9485                | 2                |
| 4                 | American Barrick Resources         | 348              | 7083                      | 25                      | 7                            | 17      | 5.9                    | 31        | 0.4     | 668                | 213                  | 1635                | 19               |
| 5                 | Thomson                            | 351              | 6995                      | 12                      | -2                           | 7       | 2.4                    | 26        | 3.7     | 5849               | 277                  | 8213                | 9                |
| 6                 | Royal Bank of Canada               | 389              | 6316                      | 20                      | -10                          | -2      | 1.5                    | 49        | 4.2     | NA                 | 216                  | 119005              | 3                |
| 7                 | Imperial Oil                       | 417              | 5959                      | 31                      | -17                          | -10     | 1.3                    | 28        | 4.2     | 6424               | 201                  | 9232                | 4                |
| 8                 | Placer Dome                        | 459              | 5476                      | 23                      | 28                           | 39      | 5.0                    | 57        | 0.8     | 662                | 77                   | 1608                | 8                |
| 9                 | Canadian Pacific                   | 464              | 5387                      | 16                      | -5                           | 4       | 1.2                    | LOSS      | 1.5     | 4747               | -20                  | 12362               | NI               |
| 10                | Alcan Aluminium                    | 478              | 5192                      | 23                      | 19                           | 30      | 1.3                    | LOSS      | 1.3     | 7307               | 104                  | 9810                | NI               |
| 11                | Toronto-Dominion Bank              | 530              | 4723                      | 16                      | 9                            | 18      | 1.4                    | 14        | 3.7     | NA                 | 198                  | 61335               | 10               |
| 12                | Bank of Montreal                   | 537              | 4632                      | 19                      | -8                           | 0       | 1.3                    | 9         | 4.7     | NA                 | 512                  | 84322               | 14               |
| 13                | Canadian Imperial Bank of Commerce | 540              | 4610                      | 22                      | -9                           | 0       | 0.9                    | 10        | 4.4     | NA                 | 527                  | 101947              | 9                |
| 14                | Bank of Nova Scotia                | 567              | 4410                      | 20                      | 0                            | 9       | 1.3                    | 9         | 4.2     | NA                 | 515                  | 77648               | 14               |
| 15                | PanCanadian Petroleum              | 634              | 3950                      | 32                      | -5                           | 4       | 3.0                    | 24        | 1.8     | 811                | 167                  | 2319                | 12               |
| 16                | Noranda                            | 660              | 3861                      | 19                      | 17                           | 27      | 1.4                    | NA        | 3.9     | 3804               | -27                  | 7039                | 0                |
| 17                | Nova Corp.                         | 676              | 3737                      | 8                       | 7                            | 17      | 2.2                    | 24        | 2.1     | 2362               | 146                  | 4995                | 9                |
| 18                | Newbridge Networks                 | 689              | 3680                      | 46                      | 33                           | 45      | 17.5                   | 37        | 0.0     | 222                | 43                   | 277                 | 47               |
| 19                | Shell Canada                       | 725              | 3518                      | 31                      | 3                            | 13      | 1.7                    | 272       | 2.1     | 3392               | 13                   | 4314                | 0                |
| 20                | Imasco                             | 825              | 3106                      | 26                      | -10                          | -2      | 1.4                    | 11        | 4.3     | 5752               | 295                  | 36369               | 12               |
| 21                | Inco                               | 876              | 2958                      | 25                      | 13                           | 23      | 1.7                    | LOSS      | 1.6     | 2131               | -100                 | 3890                | NI               |
| 22                | Bombardier                         | 963              | 2642                      | 15                      | 71                           | 87      | 3.3                    | 20        | 1.4     | 3441b              | 127b                 | 3081                | 16               |
| DENMARK           |                                    |                  |                           |                         |                              |         |                        |           |         |                    |                      |                     |                  |
| COUNTRY COMPOSITE |                                    | 23624            | 7677                      | 10                      | 16                           | 7.3     | 61                     | 1.7       | 7135    | 1173               | 65588                | 13                  |                  |
| 1                 | Tele Danmark                       | 378              | 6481                      | 49                      | NA                           | NA      | 4.8                    | 27        | 3.8     | 2831               | 242                  | 4048                | 17               |
| 2                 | Dampskibsselskabet Svenborg        | 618              | 4068                      | 27291                   | 21                           | 28      | 15.2                   | 140       | 0.3     | NA                 | 29a                  | 315a                | 10               |
| 3                 | Dampskibsselskabet af 1912         | 625              | 4003                      | 18530                   | 20                           | 27      | 18.3                   | 156       | 0.4     | NA                 | 26a                  | 267a                | 11               |
| 4                 | Novo-Nordisk                       | 674              | 3752                      | 100                     | 10                           | 16      | 2.0                    | 17        | 0.6     | 1886               | 221                  | 2974                | 12               |
| 5                 | Carlsberg                          | 943              | 2694                      | 42                      | 2                            | 8       | 2.4                    | 19        | 1.1     | 2418               | 141                  | 2760                | 12               |
| 6                 | Den Danske Bank                    | 967              | 2626                      | 50                      | -5                           | 0       | 0.8                    | 5         | 3.8     | NA                 | 514                  | 55223               | 16               |
| FINLAND           |                                    |                  |                           |                         |                              |         |                        |           |         |                    |                      |                     |                  |
| COUNTRY COMPOSITE |                                    | 4651             | 74                        | 142                     | 145                          | 4.0     | 36                     | 0.7       | 4356    | 141                | 4260                 | 11                  |                  |
| 1                 | Nokia                              | 536              | 4651                      | 74                      | 142                          | 145     | 4.0                    | 36        | 0.7     | 4356               | 141                  | 4260                | 11               |
| FRANCE            |                                    |                  |                           |                         |                              |         |                        |           |         |                    |                      |                     |                  |
| COUNTRY COMPOSITE |                                    | 278298           | 135                       | 7                       | 12                           | 1.8     | 29                     | 3.0       | 391749  | 8773               | 1934382              | 8                   |                  |
| 1                 | Elf Aquitaine                      | 90               | 18794                     | 73                      | 4                            | 9       | 1.3                    | 143       | 4.8     | 37309              | 131                  | 47874               | 0                |
| 2                 | Alcatel Alsthom                    | 116              | 15598                     | 109                     | -6                           | -2      | 1.5                    | 12        | 3.7     | 27817              | 1257                 | 46276               | 12               |
| 3                 | Compagnie Générale des Eaux        | 170              | 12259                     | 445                     | 6                            | 11      | 2.5                    | 21        | 2.6     | 26263              | 570                  | 33363a              | 11               |
| 4                 | LVMH Moët Hennessy Louis Vuitton   | 173              | 12478                     | 154                     | 15                           | 20      | 2.9                    | 19        | 2.6     | 4238               | 636                  | 9535                | 15               |
| 5                 | TOTAL                              | 174              | 12141                     | 55                      | 12                           | 17      | 1.4                    | 23        | 3.6     | 24107              | 528                  | 23794               | 6                |
| 6                 | L'Oréal                            | 180              | 11908                     | 205                     | 5                            | 9       | 4.3                    | 28        | 1.4     | 7146               | 432                  | 6088                | 15               |
| 7                 | BSN                                | 222              | 10175                     | 150                     | -10                          | -6      | 1.9                    | 17        | 2.8     | 12475              | 609                  | 14017               | 11               |
| 8                 | Compagnie de Saint-Gobain          | 251              | 9300                      | 117                     | 33                           | 40      | 1.5                    | 37        | 3.3     | 12729              | 234                  | 16618               | 4                |
| 9                 | Société Générale                   | 269              | 8766                      | 109                     | -5                           | 0       | 1.1                    | 14        | 3.9     | NA                 | 642                  | 272915              | 8                |
| 10                | Carrefour                          | 280              | 8514                      | 332                     | 34                           | 40      | 4.0                    | 29        | 1.7     | 21922              | 296                  | 9500                | 14               |
| 11                | Compagnie de Suez                  | 286              | 8333                      | 54                      | 3                            | 8       | 0.9                    | 30        | 4.0     | NA                 | 280                  | 126394              | 2                |
| 12                | Banque Nationale de Paris          | 291              | 8153                      | 44                      | -13                          | -9      | 0.7                    | 45        | 1.8     | NA                 | 181                  | 279004a             | 1                |

# THE GLOBAL 1000

|                                 | GLOBAL<br>1000<br>RANK | MARKET<br>VALUE<br>U.S.<br>\$ MIL. | PRICE<br>PER SHARE<br>U.S. \$ | % CHANGE<br>FROM 1993<br>(U.S. \$) (LOCAL) |     | PRICE/<br>BOOK<br>VALUE<br>RATIO | P/E<br>RATIO | YIELD<br>% | SALES<br>U.S.<br>\$ MIL. | PROFITS<br>U.S.<br>\$ MIL. | ASSETS<br>U.S.<br>\$ MIL. | RETURN<br>ON<br>EQUITY<br>% | INDUSTRY<br>CODE |
|---------------------------------|------------------------|------------------------------------|-------------------------------|--------------------------------------------|-----|----------------------------------|--------------|------------|--------------------------|----------------------------|---------------------------|-----------------------------|------------------|
| Air Liquide                     | 300                    | 7997                               | 137                           | 1                                          | 5   | 2.3                              | 20           | 2.7        | 5405                     | 396                        | 7379                      | 11.3                        | 22               |
| Airbus                          | 302                    | 7968                               | 70                            | 6                                          | 11  | 1.0                              | 28           | 4.6        | NA                       | 258                        | 241210                    | 3.6                         | 61               |
| Air France-Poulenc              | 308                    | 7892                               | 25                            | -2                                         | 3   | 1.4                              | 75           | 2.6        | 14335                    | 171                        | 20218                     | 1.9                         | 22               |
| Air Liquide                     | 329                    | 7350                               | 230                           | -1                                         | 3   | 1.3                              | 20           | 2.9        | NA                       | 361                        | 118025a                   | 6.4c                        | 63               |
| Assurances de Paris             | 330                    | 7340                               | 27                            | -22                                        | -18 | 1.2                              | 28           | 3.0        | 24934                    | 253                        | 148580                    | 4.3                         | 63               |
| Aegean                          | 339                    | 7203                               | 144                           | 46                                         | 52  | 0.8                              | LOSS         | 0.0        | 25877                    | -251                       | 22532                     | NEG                         | 42               |
| AF                              | 435                    | 5759                               | 85                            | -24                                        | -20 | 1.2                              | 32           | 3.8        | NA                       | 174                        | 61192a                    | 3.6c                        | 63               |
| Air France Copee                | 452                    | 5530                               | 73                            | 22                                         | 28  | 1.6                              | 20           | 3.3        | 5415                     | 276                        | 8602                      | 8.2                         | 21               |
| Air France des Eaux-Dumez       | 458                    | 5480                               | 102                           | 24                                         | 30  | 2.3                              | 36           | 2.9        | 16647                    | 143                        | 23819a                    | 6.3c                        | 71               |
| Air France Câble                | 526                    | 4740                               | 107                           | 13                                         | 19  | 3.3                              | 18           | 2.5        | 5917                     | 263                        | 5504                      | 18.4                        | 37               |
| Air France Lyonnais             | 555                    | 4497                               | 98                            | -17                                        | -13 | 0.4                              | LOSS         | 4.1        | NA                       | -1227                      | 355                       | NEG                         | 61               |
| Air France Schneider            | 578                    | 4306                               | 69                            | 15                                         | 20  | 1.4                              | 58           | 2.7        | 10031                    | 72                         | 11084                     | 2.5                         | 38               |
| Air France                      | 593                    | 4204                               | 39                            | 53                                         | 60  | 3.2                              | LOSS         | 0.0        | 11263                    | -653                       | 13290                     | NEG                         | 37               |
| Air France Beghin-Say           | 623                    | 4007                               | 162                           | 17                                         | 22  | 1.4                              | 13           | 5.0        | 9058                     | 287                        | 7813                      | 10.8                        | 44               |
| Air France-Printemps            | 656                    | 3879                               | 179                           | 40                                         | 47  | 2.1                              | 31           | 3.2        | 11263                    | 91                         | 8159                      | 6.8                         | 54               |
| Air France                      | 679                    | 3722                               | 81                            | 0                                          | 5   | 2.4                              | 37           | 4.0        | 6220                     | 101                        | 4740                      | 6.6                         | 52               |
| Air France                      | 694                    | 3624                               | 72                            | 35                                         | 41  | 1.2                              | LOSS         | 3.5        | 11214                    | -138                       | 12770                     | NEG                         | 24               |
| Air France                      | 722                    | 3524                               | 76                            | -3                                         | 2   | 0.9                              | 48           | 1.4        | 8345                     | 74                         | 123932a                   | 1.9c                        | 63               |
| Air France Sanofi               | 732                    | 3499                               | 158                           | -6                                         | -2  | 1.3                              | 17           | 4.0        | 4182                     | 209                        | 5258                      | 7.5                         | 45               |
| Air France CSF                  | 740                    | 3470                               | 30                            | 1                                          | 6   | 1.0                              | 17           | 5.3        | 6085a                    | 270a                       | 12664a                    | 6.1                         | 31               |
| Air France Plus                 | 759                    | 3390                               | 161                           | -32                                        | -29 | 3.2                              | 18           | 4.1        | 1544                     | 186                        | 2684                      | 17.7                        | 51               |
| Air France Ricard               | 819                    | 3144                               | 67                            | -4                                         | 1   | 2.2                              | 17           | 3.6        | 2678                     | 189                        | 3199                      | 13.3                        | 43               |
| Air France Grand                | 832                    | 3084                               | 1112                          | 36                                         | 42  | 3.9                              | 30           | 1.4        | 1776                     | 103                        | 2483                      | 13.0                        | 34               |
| Air France Leo                  | 857                    | 3021                               | 44                            | 53                                         | 60  | 2.0                              | 23           | 1.0        | 3601                     | 125                        | 3043                      | 8.7                         | 37               |
| Air France                      | 859                    | 3010                               | 122                           | 6                                          | 10  | 1.6                              | 30           | 3.9        | 5440a                    | 104a                       | 7610a                     | 5.4                         | 53               |
| Air France Group                | 873                    | 2968                               | 167                           | 13                                         | 19  | 3.6                              | 24           | 1.4        | 16050                    | 125                        | 6323                      | 15.0                        | 54               |
| Air France Telem                | 894                    | 2863                               | 206                           | 18                                         | 23  | 2.4                              | 13           | 2.6        | NA                       | 219                        | 11854                     | 18.7                        | 62               |
| Air France de Navigation Mixte  | 908                    | 2813                               | 189                           | 6                                          | 10  | 0.9                              | 23           | 5.7        | NA                       | 125                        | 7840a                     | 4.2c                        | 71               |
| Air France Commercial de France | 945                    | 2683                               | 41                            | -9                                         | -5  | 1.3                              | 13           | 2.8        | NA                       | 192                        | 56705                     | 9.9                         | 61               |
| Air France Metalbox             | 970                    | 2619                               | 32                            | -13                                        | -9  | 1.4                              | 18           | 3.3        | 4331                     | 149                        | 4884                      | 7.7                         | 26               |
| Air France International        | 994                    | 2520                               | 29                            | -22                                        | -19 | 0.9                              | 24           | 3.4        | 6130                     | 104                        | 8119                      | 3.7                         | 26               |
| Air France Local de France      | 1000                   | 2509                               | 70                            | -5                                         | -1  | 1.5                              | 11           | 4.2        | NA                       | 230                        | 62673                     | 13.4                        | 61               |
| Air France Tunnel (Paris) (6)   | NR                     | 1561                               | 6                             | -8                                         | -4  | 1.0                              | LOSS         | 0.0        | NA                       | -3                         | 14463                     | NEG                         | 52               |

## MANY

| RY COMPOSITE                          |     | 309871 | 466  | 31 | 35 | 2.6 | 35   | 2.5 | 538676 | 5889  | 1720602 | 10.0  |    |
|---------------------------------------|-----|--------|------|----|----|-----|------|-----|--------|-------|---------|-------|----|
| ianz Holding                          | 34  | 30159  | 1450 | 11 | 15 | 4.0 | 99   | 0.9 | 31896a | 309a  | 126156a | 4.0   | 63 |
| emens                                 | 59  | 23500  | 420  | 10 | 14 | 2.1 | 18   | 2.7 | 49664  | 1097  | 45912   | 11.7  | 34 |
| imier-Benz                            | 65  | 22524  | 483  | 38 | 42 | 2.1 | LOSS | 1.4 | 59451  | -1119 | 55308   | NEG   | 42 |
| utsche Bank                           | 75  | 20937  | 444  | 4  | 8  | 1.7 | NA   | 3.2 | NA     | 1319  | 338586  | NA    | 61 |
| BA                                    | 128 | 14771  | 304  | 29 | 33 | 1.7 | 20   | 3.7 | 40358  | 482   | 33783   | 8.3   | 12 |
| yer                                   | 131 | 14713  | 219  | 32 | 36 | 1.4 | 16   | 4.4 | 24943  | 807   | 24435   | 8.9   | 22 |
| ünchener Rück.                        | 146 | 13481  | 1703 | 16 | 20 | 6.5 | 90   | 0.6 | 15545  | 103   | 59878   | 7.1   | 63 |
| VE                                    | 149 | 13275  | 274  | 12 | 16 | 3.3 | 19   | 3.8 | 32296  | 536   | 36077   | 17.8  | 12 |
| echst                                 | 178 | 12042  | 205  | 33 | 38 | 1.8 | 28   | 3.0 | 28009  | 283   | 23791   | 6.6   | 22 |
| SF                                    | 197 | 11025  | 189  | 31 | 36 | 1.3 | 34   | 3.7 | 24677  | 522   | 24549   | 3.8   | 22 |
| W                                     | 231 | 9778   | 497  | 80 | 86 | 2.3 | 23   | 2.2 | 17650  | 314   | 18428   | 9.9   | 42 |
| annesmann                             | 247 | 9392   | 257  | 65 | 70 | 2.3 | 54   | 1.7 | 17043a | 124a  | 12609a  | 4.3   | 38 |
| esdner Bank                           | 248 | 9360   | 226  | -2 | 1  | 1.3 | NA   | 5.2 | NA     | 624   | 227693  | NA    | 61 |
| lkswagen                              | 249 | 9360   | 292  | 48 | 53 | 1.4 | LOSS | 0.6 | 46585  | -1240 | 48236   | NEG   | 42 |
| mmmerzbank                            | 376 | 6502   | 204  | 16 | 20 | 1.3 | NA   | 5.1 | NA     | 425a  | 141185a | NA    | 61 |
| yerische Vereinsbank                  | 384 | 6380   | 273  | 3  | 6  | 1.1 | NA   | 5.1 | NA     | 295   | 176030  | NA    | 61 |
| yerische Hypotheken- und Wechsel-Bank | 416 | 5965   | 262  | 4  | 8  | 1.4 | NA   | 4.8 | NA     | 304   | 152014  | NA    | 61 |
| AG                                    | 438 | 5713   | 280  | 35 | 39 | 2.2 | 27   | 2.8 | 14437  | 180   | 13596   | 8.2   | 71 |
| nkgesellschaft Berlin                 | 457 | 5486   | 224  | 58 | 64 | 1.1 | NA   | 3.5 | NA     | 70    | 42904   | NA    | 61 |
| ysen                                  | 474 | 5247   | 168  | 63 | 68 | 2.4 | LOSS | 0.0 | 20378  | -632  | 14465   | NEG   | 25 |
| enkel                                 | 476 | 5232   | 372  | 14 | 18 | 3.0 | 19   | 2.3 | 8435   | 189   | 6311    | 15.6  | 44 |
| reinigte Elek. Westfalen              | 529 | 4728   | 236  | 36 | 41 | 4.1 | 32   | 2.8 | 4106a  | 91a   | 6519a   | 12.7  | 12 |
| hering                                | 565 | 4441   | 650  | 29 | 33 | 2.6 | 27   | 1.9 | 3262   | 155   | 4323    | 9.5   | 45 |
| eussag                                | 582 | 4266   | 280  | 26 | 30 | 2.3 | 31   | 3.1 | 14167  | 144   | 8620    | 7.5   | 71 |
| echtief                               | 663 | 3852   | 642  | -3 | 0  | 2.8 | NA   | 1.8 | 4872   | 74    | 3244a   | NA    | 32 |
| P                                     | 671 | 3777   | 1928 | 92 | 98 | 6.6 | 43   | 1.0 | 670    | 89    | 795     | 15.2  | 52 |
| ode                                   | 673 | 3757   | 546  | 21 | 26 | 2.3 | 28   | 2.2 | 4363   | 95    | 3792    | 8.2   | 38 |
| AN                                    | 700 | 3582   | 249  | 48 | 53 | 1.9 | 27   | 3.0 | 11540  | 135   | 11144   | 7.1   | 38 |
| utsche Lufthansa                      | 747 | 3446   | 113  | 77 | 83 | 2.5 | LOSS | 0.0 | 10785  | -56   | 10262a  | NEG   | 56 |
| ächener & Münchener Bet.              | 750 | 3437   | 730  | 28 | 32 | 2.0 | 42   | 1.7 | NA     | 52    | 1891a*  | NA    | 63 |
| idelberger Zement                     | 829 | 3091   | 773  | 13 | 17 | 3.8 | 25   | 1.5 | 1915   | 97    | 1729a   | 14.9c | 21 |
| erstadt                               | 834 | 3082   | 367  | 12 | 16 | 2.1 | 16   | 3.1 | 11252a | 136a  | 4536a   | 12.6  | 54 |
| ar-Amperwerke                         | 887 | 2906   | 386  | 15 | 19 | 7.1 | 67   | 1.9 | 1287   | 44    | 2755    | 10.6  | 12 |
| etectoria Holding                     | 916 | 2791   | 845  | 16 | 20 | 3.3 | NA   | 1.0 | 3532a  | 23a   | 18364a  | NA    | 63 |
| ufhof                                 | 935 | 2726   | 315  | 6  | 9  | 3.8 | 19   | 3.7 | 14023  | 115   | 4216    | 19.4  | 54 |
| gussa                                 | 973 | 2610   | 304  | 44 | 49 | 2.7 | 42   | 2.0 | 9064   | 63    | 4578    | 6.5   | 26 |
| ied. Krupp AG Hoesch-Krupp            | 989 | 2539   | 130  | 77 | 83 | 1.3 | LOSS | 0.0 | 12472  | -358  | 11889a  | NEG   | 25 |



# THE GLOBAL 1000

| COUNTRY RANK             |                                       | GLOBAL 1000 RANK | MARKET VALUE U.S. \$ MIL. | PRICE PER SHARE U.S. \$ | % CHANGE FROM 1993 (U.S. \$) | (LOCAL)   | PRICE/BOOK VALUE RATIO | P/E RATIO  | YIELD %    | SALES U.S. \$ MIL. | PROFITS U.S. \$ MIL. | ASSETS U.S. \$ MIL. | RETURN ON EQUITY % |
|--------------------------|---------------------------------------|------------------|---------------------------|-------------------------|------------------------------|-----------|------------------------|------------|------------|--------------------|----------------------|---------------------|--------------------|
| <b>HONG KONG</b>         |                                       |                  |                           |                         |                              |           |                        |            |            |                    |                      |                     |                    |
| <b>COUNTRY COMPOSITE</b> |                                       | <b>181418</b>    |                           | <b>4</b>                | <b>35</b>                    | <b>35</b> | <b>2.9</b>             | <b>18</b>  | <b>2.9</b> | <b>31891</b>       | <b>10180</b>         | <b>172570</b>       | <b>16.4</b>        |
| 1                        | Hong Kong Telecommunications          | 69               | 22086                     | 2                       | 34                           | 34        | 12.4                   | 23         | 3.3        | 3143b              | 978b                 | 2936                | 54.9c              |
| 2                        | Hutchison Whampoa                     | 112              | 15917                     | 4                       | 52                           | 52        | 2.5                    | 20         | 2.0        | 3203               | 816                  | 10600               | 12.8               |
| 3                        | Sun Hung Kai Properties               | 115              | 15645                     | 7                       | 46                           | 46        | 1.9                    | 15         | 2.8        | 1744               | 866                  | 10283               | 13.1               |
| 4                        | Hang Seng Bank                        | 141              | 13875                     | 7                       | -7                           | -7        | 4.4                    | 16         | 3.0        | NA                 | 867                  | 36141               | 27.3               |
| 5                        | Swire Pacific                         | 169              | 12329                     | 8                       | 47                           | 47        | 1.6                    | 20         | 1.9        | 5276               | 603                  | 15230               | 7.6                |
| 6                        | Cheung Kong Holdings                  | 194              | 11093                     | 5                       | 37                           | 37        | 2.4                    | 9          | 2.6        | 1384               | 1266                 | 6728                | 27.6c              |
| 7                        | China Light & Power                   | 195              | 11079                     | 6                       | 31                           | 31        | 5.9                    | 21         | 2.8        | 1911               | 460                  | 3578                | 28.3               |
| 8                        | Wharf (Holdings)                      | 254              | 9244                      | 4                       | 57                           | 57        | 0.9                    | 26         | 2.6        | 811                | 353                  | 13003               | 3.5                |
| 9                        | Henderson Land Development            | 282              | 8470                      | 5                       | 73                           | 73        | 3.7                    | 13         | 3.1        | NA                 | 519                  | 3852                | 29.4               |
| 10                       | Hongkong Land Holdings                | 311              | 7858                      | 3                       | 39                           | 39        | 1.0                    | 26         | 3.4        | NA                 | 307                  | 9091                | 4.0                |
| 11                       | Hongkong Electric Holdings            | 388              | 6328                      | 3                       | 32                           | 32        | 4.1                    | 14         | 3.7        | 770                | 437                  | 2851                | 28.6               |
| 12                       | Jardine Matheson Holdings             | 427              | 5859                      | 8                       | 6                            | 6         | 2.2                    | 15         | 2.7        | 8425               | 389                  | 9799                | 14.3               |
| 13                       | CITIC Pacific                         | 430              | 5840                      | 3                       | 24                           | 24        | 1.9                    | 21         | 1.7        | 1493               | 244                  | 3462                | 8.8                |
| 14                       | New World Development                 | 486              | 5102                      | 3                       | 10                           | 10        | 1.1                    | 10         | 3.6        | NA                 | 422                  | 6957                | 10.9               |
| 15                       | Wheelock                              | 497              | 4989                      | 2                       | 105                          | 105       | 1.6                    | 21         | 1.6        | NA                 | 190                  | 3882                | 7.7                |
| 16                       | Cathay Pacific Airways                | 609              | 4115                      | 1                       | 1                            | 1         | 2.2                    | 14         | 3.8        | 3107               | 297                  | 6032                | 15.9               |
| 17                       | Hong Kong & China Gas                 | 613              | 4097                      | 2                       | 35                           | 35        | 3.7                    | 28         | 2.1        | 422                | 147                  | 1448                | 13.2               |
| 18                       | Jardine Strategic Holdings            | 655              | 3883                      | 4                       | 20                           | 20        | 1.0                    | 14         | 3.0        | NA                 | 275                  | 6513                | 7.2                |
| 19                       | Hopewell Holdings                     | 661              | 3856                      | 1                       | 30                           | 30        | 1.7                    | 11         | 5.2        | NA                 | 263                  | 3074                | 15.9               |
| 20                       | Bank of East Asia                     | 717              | 3539                      | 5                       | 23                           | 23        | 4.9                    | 27         | 2.4        | NA                 | 130                  | 9257                | 18.0               |
| 21                       | Amoy Properties                       | 808              | 3160                      | 1                       | 30                           | 30        | 1.1                    | 20         | 3.4        | NA                 | 157                  | 3258                | 5.7                |
| 22                       | Hysan Development                     | 846              | 3053                      | 3                       | 42                           | 42        | 0.8                    | 16         | 3.8        | 202                | 194                  | 4597                | 5.0                |
| <b>ITALY</b>             |                                       |                  |                           |                         |                              |           |                        |            |            |                    |                      |                     |                    |
| <b>COUNTRY COMPOSITE</b> |                                       | <b>113625</b>    |                           | <b>8</b>                | <b>31</b>                    | <b>42</b> | <b>2.6</b>             | <b>29</b>  | <b>1.5</b> | <b>102570</b>      | <b>1127</b>          | <b>580301</b>       | <b>9.9</b>         |
| 1                        | Assicurazioni Generali                | 76               | 20693                     | 28                      | 14                           | 24        | 4.0                    | 54         | 0.8        | 15629              | 383                  | 49641a              | NA                 |
| 2                        | SIP                                   | 109              | 16052                     | 3                       | 100                          | 117       | 3.1                    | 40         | 2.0        | 14706              | 413                  | 36075a              | 7.8c               |
| 3                        | STET                                  | 127              | 14860                     | 3                       | 63                           | 76        | 2.1                    | 26         | 1.8        | 17070a             | 606a                 | 44003a              | 8.2                |
| 4                        | Fiat Group                            | 129              | 14748                     | 4                       | 66                           | 80        | 1.6                    | LOSS       | 0.0        | 34280              | -1120                | 53767a              | NEG                |
| 5                        | Alleanza Assicurazioni                | 333              | 7276                      | 12                      | 32                           | 43        | 9.6                    | 62         | 0.7        | NA                 | 120                  | 5379a               | 15.3c              |
| 6                        | Montedison                            | 502              | 4939                      | 1                       | 26                           | 37        | 1.3                    | LOSS       | 0.0        | 12828              | -858                 | 20834a              | NEG                |
| 7                        | Istituto Bancario San Paolo di Torino | 522              | 4754                      | 6                       | -13                          | -6        | 1.0                    | 13         | 3.5        | NA                 | 315a                 | 116944a             | 7.5                |
| 8                        | Mediobanca                            | 523              | 4750                      | 10                      | 1                            | 9         | 2.3                    | 23         | 1.3        | NA                 | 126*                 | 15606*              | 10.1*              |
| 9                        | Banco di Roma                         | 527              | 4730                      | 1                       | 9                            | 18        | 0.7                    | 23         | 1.1        | NA                 | 195*                 | 95913*              | 3.0*               |
| 10                       | Istituto Mobiliare Italiano           | 543              | 4601                      | 8                       | NA                           | NA        | 1.2                    | 14         | 3.3        | NA                 | 322                  | 35463a              | 8.5c               |
| 11                       | RAS                                   | 576              | 4309                      | 18                      | 7                            | 16        | 2.4                    | 22         | 1.2        | NA                 | 223                  | 12347a              | 10.9c              |
| 12                       | Banca Commerciale Italiana            | 763              | 3377                      | 3                       | -16                          | -9        | 0.9                    | 18         | 3.9        | NA                 | 189                  | 84216               | 5.2                |
| 13                       | Edison                                | 858              | 3015                      | 5                       | 32                           | 43        | 2.5                    | 25         | 1.2        | 523                | 122                  | 2311a               | 10.1c              |
| 14                       | Benetton Group                        | 880              | 2937                      | 17                      | 34                           | 45        | 5.1                    | 22         | 1.4        | 1729               | 131                  | 1771a               | 22.5c              |
| 15                       | Pirelli                               | 977              | 2585                      | 2                       | 75                           | 90        | 1.6                    | LOSS       | 0.0        | 5807               | -39                  | 6032                | NEG                |
| <b>JAPAN</b>             |                                       |                  |                           |                         |                              |           |                        |            |            |                    |                      |                     |                    |
| <b>COUNTRY COMPOSITE</b> |                                       | <b>2748020</b>   |                           | <b>17</b>               | <b>9</b>                     | <b>6</b>  | <b>2.8</b>             | <b>101</b> | <b>0.7</b> | <b>3137282</b>     | <b>30349</b>         | <b>10285233</b>     | <b>4.8</b>         |
| 1                        | Nippon Telegraph & Telephone          | 1                | 128938                    | 8265                    | -8                           | -10       | 3.2                    | 270        | 0.6        | 63542b             | 477b                 | 109550a             | NA                 |
| 2                        | Mitsubishi Bank                       | 4                | 77046                     | 27                      | 5                            | 2         | 4.6                    | 163        | 0.3        | NA                 | 535                  | 474177              | 2.8                |
| 3                        | Toyota Motor                          | 6                | 75060                     | 20                      | 32                           | 29        | 1.6                    | 45         | 0.9        | 97566              | 1686                 | 89957               | 3.7                |
| 4                        | Industrial Bank of Japan              | 8                | 73248                     | 31                      | 16                           | 13        | 5.5                    | 350        | 0.3        | NA                 | 209b                 | 403421              | 1.6c               |
| 5                        | Sumitomo Bank                         | 9                | 67530                     | 21                      | 2                            | 0         | 3.2                    | 199        | 0.4        | NA                 | 340b                 | 535244              | 1.6c               |
| 6                        | Fuji Bank                             | 10               | 66985                     | 23                      | 10                           | 8         | 3.5                    | 213        | 0.4        | NA                 | 315b                 | 537891              | 1.7c               |
| 7                        | Sanwa Bank                            | 11               | 63191                     | 22                      | 3                            | 1         | 3.3                    | 145        | 0.4        | NA                 | 436b                 | 528804              | 2.3c               |
| 8                        | Dai-ichi Kangyo Bank                  | 12               | 59638                     | 19                      | 3                            | 1         | 3.1                    | 536        | 0.4        | NA                 | 111b                 | 507496              | 0.6c               |
| 9                        | Sakura Bank                           | 15               | 47265                     | 14                      | -6                           | -8        | 2.8                    | 213        | 0.6        | NA                 | 218b                 | 513306              | 1.3c               |
| 10                       | Nomura Securities                     | 17               | 45379                     | 23                      | 15                           | 12        | 2.7                    | NM         | 0.4        | NA                 | 34                   | 80920               | 0.2                |
| 11                       | Tokyo Electric Power                  | 20               | 41341                     | 31                      | -11                          | -13       | 3.1                    | 70         | 1.5        | 45101b*            | 592b*                | 117470*             | 4.4c               |
| 12                       | Matsushita Electric Industrial        | 25               | 36647                     | 17                      | 46                           | 43        | 1.1                    | 157        | 0.7        | 63255b             | 234b                 | 82471               | 0.7c               |
| 13                       | Hitachi Ltd.                          | 28               | 33866                     | 10                      | 31                           | 28        | 1.2                    | 62         | 1.0        | 70710b             | 624b                 | 83589               | 2.0c               |
| 14                       | Bank of Tokyo                         | 29               | 32312                     | 16                      | 21                           | 18        | 3.3                    | 67         | 0.5        | NA                 | 484b                 | 245645              | 5.0c               |
| 15                       | Long-Term Credit Bank of Japan        | 46               | 27209                     | 11                      | 22                           | 19        | 2.6                    | 84         | 0.7        | NA                 | 325b                 | 316621              | 3.1c               |
| 16                       | Tokai Bank                            | 47               | 26367                     | 13                      | 9                            | 6         | 2.5                    | 81         | 0.6        | NA                 | 324b                 | 318313              | 3.1c               |
| 17                       | Toshiba                               | 50               | 25950                     | 8                       | 19                           | 17        | 2.4                    | 224        | 1.2        | 44241b             | 116b                 | 53795               | 1.1c               |
| 18                       | Asahi Bank                            | 51               | 25724                     | 11                      | -4                           | -7        | 2.5                    | 131        | 0.6        | NA                 | 196b                 | 274636              | 1.9c               |
| 19                       | Seven-Eleven Japan                    | 52               | 25421                     | 74                      | 23                           | 20        | 11.0                   | 58         | 0.5        | 11199*             | 119*                 | 3367*               | 19.0*              |
| 20                       | Nippon Steel                          | 53               | 24754                     | 4                       | -4                           | -6        | 2.5                    | NM         | 0.7        | 28201              | 17                   | 42769               | 0.2                |
| 21                       | Mitsubishi Heavy Industries           | 55               | 24672                     | 7                       | 10                           | 8         | 2.4                    | 32         | 1.0        | 26563b             | 763b                 | 38536               | 7.5c               |
| 22                       | Kansai Electric Power                 | 57               | 24535                     | 25                      | -7                           | -9        | 2.4                    | 51         | 1.9        | 22646b*            | 481b*                | 57885*              | 4.7c               |
| 23                       | Daiwa Securities                      | 61               | 23104                     | 17                      | 38                           | 34        | 2.5                    | LOSS       | 0.4        | NA                 | -124                 | 49902               | NEG                |
| 24                       | Sony                                  | 68               | 22212                     | 59                      | 42                           | 39        | 1.7                    | 152        | 0.8        | 35641b             | 146b                 | 40800b              | 1.2                |
| 25                       | Ito-Yokado                            | 72               | 21294                     | 51                      | 31                           | 28        | 3.5                    | 38         | 0.6        | 27519b             | 561b                 | 15016               | 9.3c               |
| 26                       | Nissan Motor                          | 73               | 21051                     | 8                       | 20                           | 18        | 1.3                    | LOSS       | 0.8        | 55420b             | -831b                | 68662               | NEG                |
| 27                       | Mitsubishi Trust & Banking            | 74               | 21030                     | 16                      | 35                           | 32        | 2.5                    | 97         | 0.5        | NA                 | 217b                 | 164101              | 2.6c               |
| 28                       | Tokio Marine & Fire                   | 78               | 20250                     | 13                      | 5                            | 3         | 3.7                    | 69         | 0.6        | 11371b*            | 295b*                | 45716*              | 5.4c*              |
| 29                       | Sumitomo Trust & Banking              | 81               | 19730                     | 16                      | 31                           | 28        | 2.4                    | 103        | 0.5        | NA                 | 192b                 | 158081              | 2.3c               |

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|                            | GLOBAL<br>1000<br>RANK | MARKET<br>VALUE<br>U.S.<br>\$ MIL. | PRICE<br>PER SHARE<br>U.S. \$ | % CHANGE<br>FROM 1993<br>(U.S. \$) | PRICE/<br>BOOK<br>VALUE<br>RATIO | P/E<br>RATIO | YIELD<br>% | SALES<br>U.S.<br>\$ MIL. | PROFITS<br>U.S.<br>\$ MIL. | ASSETS<br>U.S.<br>\$ MIL. | RETURN<br>ON<br>EQUITY<br>% | INDUSTRY<br>CODE |
|----------------------------|------------------------|------------------------------------|-------------------------------|------------------------------------|----------------------------------|--------------|------------|--------------------------|----------------------------|---------------------------|-----------------------------|------------------|
| eco Securities             | 83                     | 19361                              | 13                            | 28                                 | 26                               | 2.4          | LOSS       | 0.6                      | NA                         | 37832                     | NEG                         | 62               |
| Japan Railway              | 85                     | 19302                              | 4825                          | NA                                 | NA                               | 3.7          | 36         | 1.0                      | 22350                      | 543                       | 67201                       | 57               |
| tsu                        | 86                     | 19093                              | 11                            | 49                                 | 46                               | 1.8          | LOSS       | 0.7                      | 29997b                     | -360b                     | 36071                       | 33               |
| arp                        | 87                     | 19029                              | 17                            | 44                                 | 41                               | 2.5          | 62         | 0.6                      | 14237b                     | 304b                      | 20056                       | 41               |
| bu Electric Power          | 92                     | 18617                              | 25                            | -6                                 | -8                               | 2.2          | 74         | 1.9                      | 18687b*                    | 251b*                     | 49936*                      | 12               |
| subishi Corp.              | 93                     | 18565                              | 12                            | 18                                 | 15                               | 2.7          | 106        | 0.6                      | 165114b                    | 176b                      | 88644                       | 59               |
| bu Railway                 | 97                     | 17803                              | 41                            | 33                                 | 30                               | 42.2         | 666        | 0.1                      | 5188                       | 27                        | 9790                        | 57               |
| C                          | 100                    | 17515                              | 11                            | 22                                 | 19                               | 2.3          | 277        | 0.8                      | 34208b                     | 63b                       | 38011                       | 34               |
| nda Motor                  | 101                    | 17492                              | 18                            | 45                                 | 41                               | 1.8          | 77         | 0.7                      | 36909b                     | 226b                      | 28752                       | 42               |
| pondenso                   | 110                    | 16011                              | 19                            | 13                                 | 10                               | 2.2          | 61         | 0.7                      | 13642                      | 261                       | 13631                       | 37               |
| subishi Estate             | 118                    | 15393                              | 12                            | 18                                 | 15                               | 3.2          | 61         | 0.6                      | 4481                       | 250                       | 23048                       | 64               |
| Nippon Airways             | 121                    | 15164                              | 11                            | 1                                  | -1                               | 8.6          | LOSS       | 0.3                      | 8495                       | -11                       | 13484                       | 56               |
| sui Trust & Banking        | 122                    | 15114                              | 13                            | 31                                 | 28                               | 2.3          | 169        | 0.6                      | NA                         | 89b                       | 140471                      | 61               |
| wa Bank                    | 124                    | 15007                              | 10                            | -6                                 | -8                               | 2.5          | 124        | 0.7                      | NA                         | 121b                      | 158282                      | 61               |
| yo Gas                     | 137                    | 14338                              | 5                             | 1                                  | -1                               | 3.7          | 92         | 0.9                      | 8069                       | 156                       | 13726                       | 12               |
| subishi Electric           | 138                    | 14096                              | 7                             | 21                                 | 18                               | 1.8          | 71         | 1.2                      | 29717b                     | 198b                      | 33523                       | 34               |
| hi Glass                   | 142                    | 13752                              | 12                            | 10                                 | 7                                | 2.4          | 59         | 0.7                      | 12584a                     | 232a                      | 14482a                      | 26               |
| Nippon Printing            | 144                    | 13609                              | 18                            | 22                                 | 20                               | 2.1          | 32         | 0.7                      | 11390                      | 426                       | 11589                       | 52               |
| non                        | 148                    | 13281                              | 17                            | 27                                 | 24                               | 1.9          | 66         | 0.7                      | 17545                      | 202                       | 20691                       | 46               |
| wasaki Steel               | 151                    | 13236                              | 4                             | 18                                 | 15                               | 2.6          | LOSS       | 0.0                      | 12517                      | -287                      | 20865                       | 25               |
| oku Electric Power         | 161                    | 12703                              | 26                            | -9                                 | -11                              | 2.4          | 37         | 1.9                      | 12804b*                    | 342b*                     | 28171*                      | 12               |
| an Airlines                | 163                    | 12647                              | 7                             | -8                                 | -10                              | 3.9          | LOSS       | 0.0                      | 12267                      | -457                      | 20238                       | 56               |
| in Brewery                 | 166                    | 12470                              | 12                            | -7                                 | -9                               | 2.1          | 30         | 0.8                      | 15097                      | 410                       | 13166a                      | 43               |
| sui & Co.                  | 171                    | 12243                              | 8                             | 14                                 | 11                               | 2.1          | 83         | 0.8                      | 168554b                    | 146b                      | 81286a                      | 59               |
| ki Nippon Railway          | 172                    | 12203                              | 8                             | 5                                  | 2                                | 5.7          | 136        | 0.6                      | 8380                       | 87                        | 12140a                      | 57               |
| ei                         | 176                    | 12070                              | 17                            | 52                                 | 49                               | 5.0          | 232        | 0.9                      | 25321b                     | 52b                       | 14983                       | 54               |
| ocera                      | 179                    | 12033                              | 65                            | 26                                 | 23                               | 2.5          | 34         | 0.7                      | 4087b                      | 352b                      | 5934                        | 35               |
| ushu Electric Power        | 184                    | 11798                              | 25                            | -8                                 | -10                              | 2.3          | 36         | 1.9                      | 12059*                     | 368*                      | 33900*                      | 12               |
| aka Gas                    | 186                    | 11789                              | 5                             | -3                                 | -5                               | 3.3          | 78         | 1.0                      | 6555                       | 162                       | 11043                       | 12               |
| lgestone                   | 187                    | 11738                              | 15                            | 20                                 | 17                               | 2.5          | 43         | 0.8                      | 15280                      | 271                       | 16830                       | 57               |
| pon Express                | 191                    | 11186                              | 10                            | 9                                  | 7                                | 5.4          | 42         | 0.6                      | 15862b                     | 269b                      | 10189                       | 37               |
| Photo Film                 | 192                    | 11162                              | 22                            | -13                                | -15                              | 1.1          | 19         | 0.8                      | 10384                      | 582                       | 15711                       | 46               |
| hi Chemical Industry       | 198                    | 11012                              | 8                             | 19                                 | 17                               | 2.7          | 63         | 0.8                      | 11772                      | 174                       | 12110                       | 22               |
| nitomo Electric Industries | 203                    | 10766                              | 15                            | 38                                 | 35                               | 2.9          | 38         | 0.6                      | 10511b                     | 282b                      | 10874                       | 37               |
| maichi Securities          | 206                    | 10706                              | 9                             | 8                                  | 5                                | 1.6          | LOSS       | 0.5                      | NA                         | -404                      | 35242                       | 62               |
| zuoka Bank                 | 207                    | 10685                              | 13                            | 5                                  | 2                                | 2.8          | 51         | 0.4                      | NA                         | 209*                      | 73566*                      | 61               |
| nitomo Corp.               | 208                    | 10679                              | 10                            | 22                                 | 19                               | 1.6          | 153        | 0.8                      | 162438b                    | 70b                       | 51436                       | 59               |
| uc                         | 217                    | 10359                              | 43                            | 14                                 | 11                               | 2.5          | 102        | 0.4                      | 1197b                      | 102b                      | 4654                        | 35               |
| yo Electric                | 218                    | 10318                              | 5                             | 26                                 | 24                               | 1.5          | LOSS       | 1.2                      | 14876                      | -15                       | 20239                       | 41               |
| nk of Yokohama             | 221                    | 10228                              | 9                             | -15                                | -17                              | 2.1          | 217        | 0.5                      | NA                         | 47b                       | 116019                      | 61               |
| eda Chemical Industries    | 224                    | 10125                              | 12                            | -8                                 | -10                              | 1.8          | 22         | 1.1                      | 6881                       | 459                       | 9618                        | 45               |
| uda Trust & Banking        | 226                    | 9908                               | 9                             | 5                                  | 3                                | 1.9          | 264        | 0.7                      | NA                         | 37b                       | 93290                       | 61               |
| chu                        | 228                    | 9888                               | 7                             | 32                                 | 29                               | 2.1          | LOSS       | 0.8                      | 184196                     | 35                        | 68253                       | 59               |
| pon Credit Bank            | 232                    | 9767                               | 56                            | -1                                 | -3                               | 1.8          | 56         | 1.0                      | NA                         | 176                       | 166538                      | 61               |
| ay Industries              | 233                    | 9762                               | 7                             | 11                                 | 8                                | 2.3          | 72         | 1.0                      | 8447b                      | 136b                      | 11929                       | 22               |
| sui Fudosan                | 236                    | 9665                               | 12                            | -5                                 | -7                               | 1.7          | 53         | 0.7                      | 12900                      | 183                       | 35375                       | 64               |
| K                          | 237                    | 9663                               | 3                             | -11                                | -13                              | 2.2          | LOSS       | 0.0                      | 17773                      | -43                       | 31236                       | 25               |
| ten                        | 238                    | 9637                               | 15                            | 11                                 | 8                                | 2.8          | 60         | 1.6                      | 5914                       | 161                       | 7485a                       | 11               |
| ata Mfg.                   | 243                    | 9463                               | 45                            | 64                                 | 60                               | 2.8          | 40         | 0.3                      | 2668b                      | 236b                      | 4516                        | 35               |
| ata                        | 244                    | 9462                               | 7                             | 12                                 | 10                               | 3.2          | 120        | 0.9                      | 9359b                      | 79b                       | 10785                       | 38               |
| matsu                      | 253                    | 9260                               | 9                             | 12                                 | 10                               | 1.9          | 743        | 0.8                      | 8082b                      | 12b                       | 12651                       | 38               |
| o Trust & Banking          | 255                    | 9237                               | 12                            | 1                                  | -2                               | 2.0          | 180        | 0.6                      | NA                         | 51b                       | 79276                       | 61               |
| nitomo Metal Industries    | 256                    | 9197                               | 3                             | -12                                | -14                              | 1.7          | NM         | 0.0                      | 16129                      | 6                         | 25780                       | 25               |
| apan Printing              | 258                    | 9182                               | 14                            | 13                                 | 10                               | 1.9          | 30         | 0.8                      | 10415b                     | 304b                      | 9865                        | 52               |
| kyo                        | 262                    | 9046                               | 22                            | 0                                  | -3                               | 3.4          | 32         | 0.5                      | 4959                       | 278                       | 5144                        | 45               |
| apon Oil                   | 264                    | 8930                               | 7                             | -6                                 | -8                               | 1.5          | 41         | 0.9                      | 24652b                     | 222b                      | 27437                       | 11               |
| ugoku Electric Power       | 265                    | 8864                               | 24                            | -8                                 | -10                              | 2.4          | 55         | 2.0                      | 9264b*                     | 159b*                     | 21490*                      | 12               |
| jima                       | 270                    | 8754                               | 9                             | 12                                 | 9                                | 2.4          | 54         | 0.9                      | 20639                      | 164                       | 31083                       | 32               |
| etendo                     | 275                    | 8664                               | 61                            | -31                                | -33                              | 2.2          | 17         | 1.1                      | 4640b                      | 503b                      | 5817                        | 46               |
| be Steel                   | 284                    | 8372                               | 3                             | -8                                 | -10                              | 2.2          | LOSS       | 0.0                      | 12708                      | -137                      | 23611                       | 25               |
| yu Corp.                   | 287                    | 8287                               | 8                             | -14                                | -16                              | 3.6          | 420        | 0.6                      | 4554                       | 20                        | 14292                       | 57               |
| isui House                 | 288                    | 8279                               | 13                            | 7                                  | 5                                | 1.4          | 21         | 1.4                      | 12326b                     | 385b                      | 13970                       | 32               |
| rubeni                     | 294                    | 8105                               | 5                             | 18                                 | 15                               | 1.9          | 154        | 1.1                      | 148966b                    | 52b                       | 77082                       | 59               |
| tsushita Electric Works    | 295                    | 8091                               | 11                            | 4                                  | 2                                | 1.9          | 58         | 1.2                      | 9862                       | 139                       | 10326a                      | 21               |
| omoto                      | 306                    | 7935                               | 12                            | -3                                 | -5                               | 2.3          | 79         | 0.8                      | 6449b                      | 100b                      | 7240                        | 44               |
| subishi Kasei              | 312                    | 7856                               | 5                             | 5                                  | 2                                | 2.8          | 137        | 0.6                      | 11275                      | 58                        | 13518                       | 22               |
| nitomo Chemical            | 315                    | 7779                               | 5                             | 4                                  | 1                                | 3.4          | 64         | 0.6                      | 8953                       | 122                       | 12298a                      | 22               |
| subishi Motors             | 323                    | 7442                               | 9                             | 23                                 | 20                               | 1.9          | 140        | 0.8                      | 28188b                     | 53b                       | 22825                       | 42               |
| ga Enterprises             | 327                    | 7384                               | 73                            | -20                                | -22                              | 6.3          | 69         | 0.5                      | 3980b                      | 107b                      | 3363                        | 46               |
| w Oji Paper                | 328                    | 7383                               | 10                            | 2                                  | 0                                | 2.5          | 166        | 0.9                      | 6432b                      | 45b                       | 7698                        | 23               |
| D                          | 331                    | 7308                               | 114                           | 2                                  | 0                                | 2.4          | 49         | 0.4                      | 2485b                      | 148b                      | 5317                        | 55               |
| com                        | 335                    | 7243                               | 64                            | 10                                 | 7                                | 4.2          | 69         | 0.7                      | 2379                       | 96                        | 3463                        | 52               |
| iwa House Industry         | 337                    | 7226                               | 15                            | 5                                  | 3                                | 1.9          | 18         | 1.1                      | 8905                       | 411                       | 10794                       | 32               |
| ba Bank                    | 338                    | 7217                               | 9                             | -4                                 | -7                               | 2.1          | 55         | 0.5                      | NA                         | 141*                      | 81363*                      | 61               |
| tem                        | 342                    | 7141                               | 33                            | 4                                  | 2                                | 2.5          | 49         | 0.4                      | 4848                       | 146                       | 5932                        | 21               |
| mizu                       | 343                    | 7127                               | 9                             | 3                                  | 1                                | 2.2          | 34         | 1.1                      | 22646                      | 207                       | 32010                       | 32               |



# THE GLOBAL 1000

| COUNTRY RANK |                                            | GLOBAL 1000 RANK | MARKET VALUE U.S. \$ MIL. | PRICE PER SHARE U.S. \$ | % CHANGE FROM 1993 (U.S. \$) (LOCAL) |     | PRICE/BOOK VALUE RATIO | P/E RATIO | YIELD % | SALES U.S. \$ MIL. | PROFITS U.S. \$ MIL. | ASSETS U.S. \$ MIL. | RETURN ON EQUITY % |
|--------------|--------------------------------------------|------------------|---------------------------|-------------------------|--------------------------------------|-----|------------------------|-----------|---------|--------------------|----------------------|---------------------|--------------------|
| 106          | Nippon Yusen                               | 344              | 7127                      | 6                       | 7                                    | 5   | 3.2                    | 100       | 0.6     | 8568               | 71                   | 12058               | 3.2                |
| 107          | Yasuda Fire & Marine                       | 350              | 7069                      | 8                       | -2                                   | -4  | 3.2                    | 52        | 0.8     | 7684*              | 135*                 | 33415*              | 6.1*               |
| 108          | Kao                                        | 353              | 6932                      | 12                      | -3                                   | -5  | 2.4                    | 33        | 0.9     | 7395b              | 212b                 | 6657                | 7.2c               |
| 109          | Joyo Bank                                  | 355              | 6915                      | 9                       | -3                                   | -6  | 2.2                    | 64        | 0.6     | NA                 | 128*                 | 70087*              | 3.5*               |
| 110          | Shin-Etsu Chemical                         | 358              | 6841                      | 21                      | 28                                   | 25  | 2.8                    | 45        | 0.3     | 4405               | 153                  | 5758                | 6.2                |
| 111          | Jusco                                      | 360              | 6781                      | 22                      | 17                                   | 14  | 3.3                    | 70        | 0.9     | 16742              | 97                   | 9900                | 4.7                |
| 112          | Shikoku Electric Power                     | 362              | 6744                      | 25                      | -11                                  | -13 | 2.3                    | 28        | 1.9     | 4395*              | 237*                 | 12431*              | 7.9*               |
| 113          | Taisei                                     | 364              | 6692                      | 7                       | -1                                   | -3  | 1.8                    | 19        | 1.7     | 22469              | 348                  | 31523               | 9.6                |
| 114          | Hachijuni Bank                             | 369              | 6620                      | 12                      | 12                                   | 9   | 2.9                    | 51        | 0.4     | NA                 | 126*                 | 50862*              | 5.8*               |
| 115          | Taisho Pharmaceutical                      | 377              | 6486                      | 19                      | 1                                    | -3  | 2.8                    | 27        | 1.0     | 1914b*             | 240b*                | 3157*               | 10.3c              |
| 116          | Sumitomo Marine & Fire                     | 385              | 6378                      | 10                      | 3                                    | 1   | 2.9                    | 58        | 0.7     | 4795b*             | 110b*                | 21671*              | 5.0c               |
| 117          | Nippon Paper Industries                    | 387              | 6369                      | 7                       | 11                                   | 8   | 4.2                    | 106       | 1.0     | 5236               | 32                   | 6462                | 3.9                |
| 118          | Ishikawajima-Harima Heavy Industries       | 390              | 6278                      | 5                       | 0                                    | -2  | 3.6                    | 56        | 1.2     | 10320b             | 111b                 | 14256               | 6.4c               |
| 119          | Marui                                      | 398              | 6158                      | 17                      | 9                                    | 6   | 1.7                    | 35        | 1.3     | 5209b              | 178b                 | 7643                | 4.9c               |
| 120          | Ono Pharmaceutical                         | 399              | 6154                      | 50                      | -9                                   | 11  | 5.1                    | 35        | 0.4     | 1049b*             | 175b*                | 1971*               | 14.5c              |
| 121          | Kawasaki Heavy Industries                  | 401              | 6133                      | 5                       | 7                                    | 4   | 4.8                    | 44        | 1.0     | 10415              | 138                  | 11394               | 10.9               |
| 122          | Sony Music Entertainment                   | 404              | 6109                      | 56                      | 29                                   | 26  | 3.2                    | 46        | 0.4     | 1672b              | 132b                 | 2368                | 6.9c               |
| 123          | Ricoh                                      | 405              | 6100                      | 9                       | 31                                   | 28  | 1.8                    | 127       | 1.0     | 9252b              | 91b                  | 11743               | 1.4                |
| 124          | Yamanouchi Pharmaceutical                  | 407              | 6082                      | 19                      | -15                                  | -17 | 1.8                    | 21        | 0.7     | 3416               | 288                  | 6427                | 8.7                |
| 125          | Mitsui Marine & Fire                       | 409              | 6073                      | 8                       | -1                                   | -3  | 3.0                    | 57        | 0.8     | 5246*              | 107*                 | 23500*              | 5.2*               |
| 126          | Mitsubishi Materials                       | 415              | 5982                      | 5                       | 9                                    | 7   | 2.0                    | NM        | 0.9     | 10988              | 3                    | 13789               | 0.1                |
| 127          | Suzuki Motor                               | 418              | 5959                      | 13                      | 48                                   | 45  | 2.4                    | 31        | 0.5     | 12030              | 182                  | 7555                | 7.8                |
| 128          | TDK                                        | 421              | 5931                      | 45                      | 29                                   | 26  | 1.6                    | 113       | 1.1     | 4370b              | 52b                  | 5685                | 1.4c               |
| 129          | Toto                                       | 423              | 5906                      | 17                      | -2                                   | -4  | 2.7                    | 51        | 0.6     | 4081b              | 116b                 | 4159                | 5.3c               |
| 130          | Mazda Motor                                | 426              | 5892                      | 5                       | 12                                   | 9   | 1.5                    | 482       | 0.0     | 24781              | 12                   | 15203               | 0.3                |
| 131          | Toyo Seikan Kaisha                         | 433              | 5782                      | 29                      | -2                                   | -4  | 1.8                    | 22        | 0.3     | 7358               | 264                  | 6081                | 8.2                |
| 132          | Gunma Bank                                 | 434              | 5768                      | 11                      | 4                                    | 2   | 2.7                    | 57        | 0.5     | NA                 | 101*                 | 50576*              | 4.8*               |
| 133          | Sekisui Chemical                           | 436              | 5748                      | 10                      | 19                                   | 16  | 1.6                    | 34        | 1.0     | 8714               | 170                  | 9394                | 4.7                |
| 134          | Tobu Railway                               | 446              | 5571                      | 6                       | -17                                  | -19 | 3.9                    | 240       | 0.7     | 2998               | 23                   | 9372                | 1.6                |
| 135          | Hitachi Zosen                              | 449              | 5554                      | 6                       | -2                                   | -4  | 5.9                    | 97        | 0.9     | 5012b              | 57b                  | 4999                | 6.1c               |
| 136          | Bank of Fukuoka                            | 456              | 5489                      | 9                       | -1                                   | -3  | 2.3                    | 67        | 0.5     | NA                 | 99*                  | 63169*              | 3.5*               |
| 137          | Hokkaido Electric Power                    | 466              | 5366                      | 25                      | -9                                   | -11 | 2.4                    | 24        | 1.9     | 4978*              | 156*                 | 12558*              | 10.1*              |
| 138          | Hokuriku Electric Power                    | 472              | 5284                      | 24                      | -8                                   | -11 | 1.9                    | 34        | 2.0     | 4252*              | 215*                 | 13124*              | 5.6*               |
| 139          | Teijin                                     | 475              | 5241                      | 5                       | 21                                   | 18  | 1.7                    | 144       | 1.1     | 5377b              | 36b                  | 9540                | 1.2c               |
| 140          | Hankyu Corp.                               | 482              | 5118                      | 6                       | 6                                    | 8   | 3.0                    | 75        | 0.8     | 3399               | 68                   | 10035               | 4.0                |
| 141          | Ohbayashi                                  | 483              | 5112                      | 7                       | 3                                    | 0   | 1.9                    | 25        | 1.1     | 14701              | 201                  | 24310               | 7.5                |
| 142          | Hokuriku Bank                              | 488              | 5087                      | 7                       | 0                                    | -2  | 1.6                    | 66        | 0.6     | NA                 | 77                   | 72820               | 2.4                |
| 143          | Sumitomo Metal Mining                      | 489              | 5084                      | 9                       | -10                                  | -12 | 2.7                    | 78        | 0.5     | 4854               | 59                   | 5894                | 3.4                |
| 144          | Odakyu Electric Railway                    | 491              | 5057                      | 7                       | -6                                   | -8  | 3.9                    | 117       | 0.7     | 5217               | 43                   | 8811                | 3.3                |
| 145          | Kyushu Matsushita Electric                 | 492              | 5055                      | 29                      | 3                                    | 1   | 3.4                    | 78        | 0.5     | 3093b*             | 65b*                 | 2504*               | 4.4c               |
| 146          | Matsushita-Kotobuki Electronics Industries | 493              | 5032                      | 32                      | 70                                   | 67  | 3.2                    | 60        | 0.4     | 3463b              | 83b                  | 2539*               | 5.2c               |
| 147          | Toyoda Automatic Loom Works                | 495              | 5012                      | 18                      | 5                                    | 2   | 2.2                    | 49        | 0.7     | 4722b*             | 103b*                | 3939*               | 4.4c               |
| 148          | Pioneer Electronic                         | 501              | 4942                      | 28                      | 23                                   | 20  | 1.6                    | NM        | 0.9     | 5638               | 85                   | 4809                | 0.1                |
| 149          | Isuzu Motors                               | 508              | 4895                      | 5                       | 1                                    | -4  | 5.2                    | LOSS      | 0.0     | 14906              | -41                  | 12022a              | NEG                |
| 150          | Cosmo Oil                                  | 511              | 4877                      | 8                       | 4                                    | 2   | 3.6                    | 59        | 0.9     | 15384b             | 83b                  | 12265               | 6.2c               |
| 151          | Ashikaga Bank                              | 524              | 4749                      | 8                       | -12                                  | -14 | 1.9                    | 96        | 0.7     | NA                 | 77*                  | 63810*              | 1.9*               |
| 152          | Japan Energy                               | 532              | 4693                      | 4                       | -16                                  | -18 | 3.1                    | LOSS      | 1.1     | 12613              | -276                 | 15776               | NEG                |
| 153          | Asahi Breweries                            | 533              | 4669                      | 11                      | -2                                   | -4  | 1.7                    | 142       | 0.7     | 9089               | 33                   | 20267a              | 1.2c               |
| 154          | Tokyo Electron                             | 538              | 4619                      | 31                      | 16                                   | 14  | 3.4                    | 270       | 0.4     | 1471               | 17                   | 2278                | 1.2                |
| 155          | Showa Shell Sekiyu                         | 542              | 4603                      | 14                      | 31                                   | 28  | 2.9                    | 62        | 0.5     | 14524              | 74                   | 8508a               | 4.7c               |
| 156          | Mitsukoshi                                 | 544              | 4596                      | 10                      | 15                                   | 12  | 4.7                    | LOSS      | 0.6     | 9937b              | -85b                 | 6269                | NEG                |
| 157          | Shiseido                                   | 545              | 4589                      | 11                      | -15                                  | -17 | 1.5                    | 33        | 0.9     | 5248b              | 140b                 | 5756                | 4.5c               |
| 158          | Furukawa Electric                          | 548              | 4577                      | 7                       | 8                                    | 5   | 2.5                    | 541       | 0.8     | 6305b              | 8b                   | 7136                | 0.5c               |
| 159          | Nisshin Steel                              | 551              | 4526                      | 4                       | 0                                    | -2  | 1.9                    | LOSS      | 0.6     | 4220               | -162                 | 6771                | NEG                |
| 160          | Eisai                                      | 552              | 4522                      | 18                      | 7                                    | 5   | 2.6                    | 31        | 0.7     | 2258b              | 144b                 | 3049                | 8.2c               |
| 161          | Mitsui O.S.K. Lines                        | 553              | 4517                      | 4                       | -5                                   | -7  | 3.3                    | 66        | 0.0     | 6431               | 67                   | 9282                | 5.0                |
| 162          | Yamazaki Baking                            | 569              | 4378                      | 20                      | 11                                   | 8   | 2.7                    | 31        | 0.6     | 5806               | 142                  | 3486a               | 8.7c               |
| 163          | Nippon Fire & Marine                       | 570              | 4378                      | 8                       | 2                                    | 0   | 2.3                    | 48        | 0.9     | 3774*              | 91*                  | 18943*              | 4.8*               |
| 164          | Hokkaido Takushoku Bank                    | 571              | 4361                      | 5                       | -28                                  | -30 | 1.2                    | 171       | 1.2     | NA                 | 25b                  | 104563              | 0.7c               |
| 165          | Matsushita Communication Industrial        | 572              | 4346                      | 23                      | 13                                   | 11  | 2.3                    | 63        | 0.5     | 5007               | 69                   | 3316                | 3.6                |
| 166          | Ebara                                      | 573              | 4338                      | 15                      | 12                                   | 10  | 3.9                    | 118       | 0.6     | 3955               | 37                   | 4238                | 3.3                |
| 167          | Nagoya Railroad                            | 579              | 4299                      | 5                       | -5                                   | -7  | 2.8                    | 38        | 0.8     | 3411               | 111                  | 10347               | 7.2                |
| 168          | Kyowa Hakko Kogyo                          | 584              | 4252                      | 10                      | 11                                   | -13 | 2.9                    | 71        | 0.7     | 3089               | 60                   | 3803                | 4.1                |
| 169          | Rohm                                       | 597              | 4179                      | 41                      | 90                                   | 75  | 2.3                    | 52        | 0.3     | 1786               | 77                   | 2976                | 4.4                |
| 170          | Dainippon Ink & Chemicals                  | 612              | 4099                      | 5                       | 3                                    | 1   | 2.3                    | LOSS      | 1.1     | 8495               | -40                  | 10070               | NEG                |
| 171          | Daiichi Pharmaceutical                     | 616              | 4080                      | 15                      | 6                                    | -8  | 2.0                    | 24        | 0.9     | 2293               | 168                  | 3536                | 8.4                |
| 172          | Yamato Transport                           | 621              | 4025                      | 12                      | 25                                   | 22  | 2.6                    | 45        | 0.9     | 5397b              | 89b                  | 3513                | 5.7c               |
| 173          | Nichii                                     | 635              | 3948                      | 14                      | -2                                   | -4  | 1.8                    | 45        | 1.5     | 12495              | 88                   | 11905               | 3.9                |
| 174          | NSK                                        | 645              | 3905                      | 7                       | 18                                   | 15  | 1.7                    | 577       | 0.8     | 3967               | 7                    | 6244                | 0.3                |
| 175          | Hiroshima Bank                             | 646              | 3904                      | 6                       | -3                                   | -5  | 1.9                    | 57        | 0.8     | NA                 | 61*                  | 61115*              | 3.2*               |
| 176          | FamilyMart                                 | 647              | 3904                      | 61                      | 39                                   | 36  | 7.0                    | 49        | 0.3     | 3955*              | 82*                  | 1360*               | 14.4*              |
| 177          | Nissho Iwai                                | 649              | 3895                      | 5                       | 12                                   | 9   | 1.7                    | 38        | 1.0     | 98419b             | 103b                 | 45110               | 4.6c               |
| 178          | Oki Electric Industry                      | 650              | 3890                      | 6                       | 36                                   | 33  | 2.6                    | LOSS      | 0.0     | 6225b              | -17b                 | 7416                | NEG                |
| 179          | Nankai Electric Railway                    | 654              | 3885                      | 9                       | 2                                    | -4  | 4.2                    | 174       | 0.6     | 1547               | 21                   | 5840                | 2.4                |
| 180          | Tokyo Steel Mfg.                           | 664              | 3832                      | 25                      | -2                                   | -4  | 1.9                    | LOSS      | 0.8     | 1459b*             | -117b*               | 2960*               | NEG                |
| 181          | Isetan                                     | 678              | 3723                      | 17                      | 0                                    | -3  | 2.6                    | 118       | 0.6     | 5423               | 32                   | 5050                | 2.2                |

# THE GLOBAL 1000

|                                    | GLOBAL<br>1000<br>RANK | MARKET<br>VALUE<br>U.S.<br>\$ MIL. | PRICE<br>PER SHARE<br>U.S. \$ | % CHANGE<br>FROM 1993<br>(U.S. \$) | (LOCAL) | PRICE/<br>BOOK<br>VALUE<br>RATIO | P/E<br>RATIO | YIELD<br>% | SALES<br>U.S.<br>\$ MIL. | PROFITS<br>U.S.<br>\$ MIL. | ASSETS<br>U.S.<br>\$ MIL. | RETURN<br>ON<br>EQUITY<br>% | INDUSTRY<br>CODE |
|------------------------------------|------------------------|------------------------------------|-------------------------------|------------------------------------|---------|----------------------------------|--------------|------------|--------------------------|----------------------------|---------------------------|-----------------------------|------------------|
| Electric                           | 680                    | 3719                               | 5                             | 6                                  | 3       | 2.2                              | 107          | 1.5        | 7969b                    | 35b                        | 8051                      | 2.0c                        | 34               |
| on                                 | 682                    | 3711                               | 10                            | 10                                 | 8       | 2.7                              | LOSS         | 0.5        | 2217                     | -84                        | 3485                      | NEG                         | 46               |
| on                                 | 683                    | 3708                               | 16                            | 21                                 | 18      | 1.7                              | 82           | 0.8        | 4424                     | 44                         | 5636                      | 2.0                         | 34               |
| achi Metals                        | 685                    | 3696                               | 11                            | 7                                  | 5       | 2.4                              | 120          | 0.9        | 4166                     | 31                         | 4613                      | 2.0                         | 25               |
| owa Denko                          | 690                    | 3670                               | 4                             | -3                                 | -6      | 2.9                              | LOSS         | 0.0        | 4859                     | -257                       | 7849a*                    | NA                          | 22               |
| K Insulators                       | 691                    | 3668                               | 10                            | -2                                 | -4      | 2.4                              | 88           | 0.7        | 2226b                    | 42b                        | 2949                      | 2.7c                        | 37               |
| eden                               | 693                    | 3632                               | 17                            | -15                                | -17     | 1.8                              | 21           | 0.5        | 4787*                    | 163*                       | 5510*                     | 8.7*                        | 32               |
| o Teito Electric Railway           | 696                    | 3610                               | 6                             | -10                                | -12     | 3.2                              | 63           | 0.9        | 4214                     | 56                         | 5950a                     | 5.1c                        | 37               |
| neral Sekiyu                       | 701                    | 3579                               | 12                            | 33                                 | 30      | 3.3                              | 37           | 1.8        | 4994                     | 96                         | 3590                      | 9.0                         | 11               |
| Bank                               | 708                    | 3572                               | 9                             | 18                                 | 15      | 2.4                              | 37           | 0.5        | NA                       | 87*                        | 39606*                    | 6.5*                        | 61               |
| tor Co. of Japan                   | 709                    | 3569                               | 14                            | 43                                 | 40      | 1.4                              | LOSS         | 0.0        | 6942b                    | -187b                      | 5190                      | NEG                         | 41               |
| on Sales                           | 716                    | 3541                               | 32                            | 31                                 | 28      | 2.1                              | 52           | 0.4        | 5064a                    | 61a                        | 3404a                     | 4.1                         | 52               |
| maguchi Bank                       | 718                    | 3535                               | 18                            | 24                                 | 21      | 2.0                              | 31           | 0.3        | NA                       | 112*                       | 40215*                    | 6.4*                        | 61               |
| aray                               | 720                    | 3534                               | 11                            | 6                                  | 4       | 2.5                              | 45           | 0.7        | 3122b                    | 78b                        | 4183                      | 5.4c                        | 22               |
| w Japan Securities                 | 721                    | 3528                               | 8                             | 21                                 | 18      | 2.4                              | LOSS         | 0.0        | NA                       | -367                       | 8485                      | NEG                         | 62               |
| pon Light Metal                    | 723                    | 3519                               | 7                             | -9                                 | -11     | 2.2                              | 84           | 0.3        | 6096                     | 40                         | 6975                      | 2.6                         | 24               |
| to Trust Construction              | 726                    | 3517                               | 25                            | -11                                | -13     | 3.5                              | 16           | 1.0        | 2620b*                   | 225b*                      | 1917*                     | 22.3c*                      | 32               |
| sin Food Products                  | 731                    | 3503                               | 26                            | -1                                 | -4      | 2.1                              | 45           | 0.9        | 2466b                    | 79b                        | 2958                      | 4.6c                        | 44               |
| asawa Pharmaceutical               | 733                    | 3497                               | 11                            | 8                                  | 6       | 1.7                              | LOSS         | 0.7        | 2704                     | -13                        | 4909                      | NEG                         | 45               |
| ugoku Bank                         | 738                    | 3482                               | 17                            | 22                                 | 19      | 1.8                              | 30           | 0.3        | NA                       | 88*                        | 43625*                    | 5.9*                        | 61               |
| hido Fire & Marine                 | 739                    | 3475                               | 8                             | 11                                 | 9       | 2.3                              | 41           | 0.9        | 3392*                    | 86*                        | 15298*                    | 5.6*                        | 63               |
| io Computer                        | 748                    | 3445                               | 13                            | 24                                 | 21      | 2.2                              | 66           | 0.9        | 3667b                    | 51b                        | 4350                      | 3.2c                        | 46               |
| nitomo Forestry                    | 749                    | 3438                               | 19                            | 6                                  | 4       | 3.6                              | 32           | 0.4        | 6191b                    | 107b                       | 3377                      | 11.4c                       | 21               |
| ndenko                             | 753                    | 3421                               | 20                            | -16                                | -18     | 2.8                              | 28           | 0.5        | 5543b*                   | 124b*                      | 4163*                     | 10.0c*                      | 32               |
| in Seiki                           | 762                    | 3382                               | 12                            | 7                                  | 5       | 1.6                              | 30           | 0.9        | 8012                     | 112                        | 5717                      | 5.2                         | 37               |
| ubushi Oil                         | 765                    | 3368                               | 9                             | -3                                 | -5      | 3.1                              | 27           | 0.8        | 10836                    | 120                        | 7885                      | 11.6                        | 11               |
| ubuchi Motor                       | 768                    | 3358                               | 72                            | 20                                 | 17      | 2.7                              | 49           | 0.3        | 730                      | 68                         | 1415                      | 5.6                         | 34               |
| pon Meat Packers                   | 770                    | 3352                               | 15                            | 2                                  | -1      | 1.9                              | 29           | 1.0        | 7224                     | 116                        | 4747                      | 6.6                         | 44               |
| ubushi Petrochemical               | 771                    | 3351                               | 7                             | -9                                 | -11     | 1.7                              | 52           | 0.6        | 4854                     | 64                         | 5978                      | 3.2                         | 22               |
| kita                               | 773                    | 3336                               | 21                            | 29                                 | 26      | 1.9                              | 43           | 0.8        | 1537b                    | 78b                        | 2701                      | 4.6c                        | 34               |
| sui Toatsu Chemicals               | 781                    | 3293                               | 4                             | 5                                  | 2       | 2.2                              | 111          | 0.7        | 4739                     | 30                         | 7498                      | 2.0                         | 22               |
| magai-Gumi                         | 782                    | 3291                               | 5                             | -8                                 | -10     | 1.0                              | 335          | 0.6        | 11371                    | 10                         | 19835                     | 0.3                         | 32               |
| uyama Transporting                 | 793                    | 3227                               | 11                            | 4                                  | 2       | 2.4                              | 38           | 0.9        | 2446*                    | 95*                        | 2266*                     | 6.2*                        | 57               |
| hin Electric Express Railway       | 796                    | 3222                               | 6                             | -7                                 | -9      | 3.5                              | 85           | 0.7        | 2284                     | 38                         | 6129a                     | 4.1c                        | 57               |
| onogi                              | 801                    | 3204                               | 9                             | -6                                 | -8      | 1.8                              | 38           | 0.8        | 3325                     | 84                         | 3512a                     | 4.8c                        | 45               |
| wa                                 | 802                    | 3204                               | 26                            | NA                                 | NA      | 2.8                              | 18           | 0.7        | 1153                     | 178                        | 1583a                     | 15.4c                       | 46               |
| himatsu Construction               | 803                    | 3194                               | 12                            | 4                                  | 2       | 2.8                              | 26           | 1.1        | 5366b*                   | 121b*                      | 6362*                     | 10.7c*                      | 32               |
| -Tokyo Fire & Marine               | 804                    | 3194                               | 8                             | 3                                  | 0       | 1.9                              | 40           | 0.9        | 3755*                    | 80*                        | 13931*                    | 4.7*                        | 63               |
| igumi                              | 809                    | 3159                               | 12                            | 10                                 | 8       | 3.3                              | 38           | 0.7        | 1347                     | 81                         | 1915a                     | 8.8c                        | 52               |
| mana                               | 810                    | 3158                               | 23                            | 18                                 | 15      | 2.6                              | 24           | 0.5        | 1605                     | 134                        | 1964                      | 11.2                        | 46               |
| o Motors                           | 811                    | 3158                               | 9                             | 25                                 | 22      | 2.8                              | 109          | 0.7        | 6039*                    | 32*                        | 3567*                     | 2.5*                        | 38               |
| ada                                | 813                    | 3158                               | 11                            | 2                                  | 0       | 1.4                              | 80           | 0.5        | 1262                     | 39                         | 3334                      | 1.7                         | 38               |
| obo                                | 814                    | 3156                               | 5                             | 16                                 | 13      | 3.2                              | 807          | 1.0        | 4750b                    | 4b                         | 5394                      | 0.4c                        | 47               |
| yo Dome                            | 816                    | 3152                               | 20                            | -5                                 | -7      | 4.2                              | LOSS         | 0.6        | 1152                     | -5                         | 5997                      | NEG                         | 53               |
| achi Cable                         | 822                    | 3129                               | 8                             | 11                                 | 8       | 2.0                              | 55           | 1.0        | 3219b                    | 57b                        | 3303                      | 3.6c                        | 37               |
| e Industries                       | 824                    | 3114                               | 4                             | -12                                | -14     | 3.8                              | LOSS         | 0.0        | 6179                     | -27                        | 9262                      | NEG                         | 26               |
| sui Engineering & Shipbuilding     | 831                    | 3089                               | 4                             | -12                                | -14     | 3.3                              | 115          | 1.0        | 3320b                    | 27b                        | 5785                      | 2.8c                        | 38               |
| dit Saison                         | 833                    | 3083                               | 24                            | 68                                 | 64      | 3.1                              | 49           | 0.4        | 756*                     | 63*                        | 5334*                     | 6.3*                        | 62               |
| kyo                                | 837                    | 3072                               | 24                            | -6                                 | -8      | 2.2                              | 29           | 0.6        | 2953                     | 106                        | 2559                      | 7.6                         | 52               |
| oporo Breweries                    | 843                    | 3055                               | 9                             | -9                                 | -11     | 2.4                              | 93           | 0.7        | 5752                     | 33                         | 7121a                     | 2.5c                        | 43               |
| ikura                              | 844                    | 3054                               | 9                             | 2                                  | -1      | 2.9                              | LOSS         | 0.7        | 3011b                    | -15b                       | 4257                      | NEG                         | 37               |
| pon Television Network             | 849                    | 3036                               | 240                           | 25                                 | 22      | 2.6                              | 90           | 0.3        | 2083                     | 33                         | 1771                      | 2.9                         | 51               |
| N                                  | 854                    | 3031                               | 7                             | 21                                 | 18      | 1.9                              | 68           | 1.3        | 2965                     | 45                         | 4437                      | 2.8                         | 37               |
| yu Land                            | 861                    | 2993                               | 7                             | 1                                  | -1      | 2.8                              | 211          | 0.7        | 4304                     | 14                         | 9426a                     | 1.3c                        | 64               |
| o Co.                              | 864                    | 2991                               | 192                           | 16                                 | 14      | 3.1                              | 40           | 0.5        | 1577b                    | 74b                        | 2159                      | 7.8c                        | 53               |
| hi-Nippon Bank                     | 865                    | 2990                               | 8                             | 11                                 | 8       | 2.0                              | 64           | 0.6        | NA                       | 55*                        | 39176a*                   | 3.1c*                       | 61               |
| ational House Industrial           | 868                    | 2986                               | 17                            | 0                                  | -2      | 2.9                              | 32           | 0.8        | 2028*                    | 93*                        | 2042*                     | 9.1*                        | 32               |
| yama Trading                       | 869                    | 2982                               | 41                            | -33                                | -35     | 1.9                              | 20           | 0.8        | 1742b*                   | 152b*                      | 2505*                     | 9.9c*                       | 54               |
| seko                               | 870                    | 2982                               | 7                             | -8                                 | -10     | 1.1                              | 51           | 0.7        | 5102                     | 58                         | 12534                     | 2.1                         | 32               |
| yu                                 | 872                    | 2973                               | 13                            | 2                                  | -1      | 2.6                              | 43           | 1.2        | 12517b                   | 70b                        | 15305                     | 6.2c                        | 54               |
| pon Shinpan                        | 881                    | 2934                               | 9                             | 3                                  | 1       | 1.5                              | 210          | 0.8        | NA                       | 14                         | 71750                     | 0.7                         | 62               |
| ita Corp.                          | 883                    | 2920                               | 6                             | -4                                 | -7      | 1.5                              | 23           | 1.6        | 8384                     | 127                        | 14610                     | 6.4                         | 32               |
| yo Broadcasting System             | 886                    | 2907                               | 17                            | 21                                 | 18      | 1.8                              | 232          | 0.4        | 1949*                    | 17*                        | 2760*                     | 0.8*                        | 51               |
| ashimaya                           | 891                    | 2892                               | 13                            | 16                                 | 13      | 2.4                              | LOSS         | 0.7        | 12382                    | -67                        | 7805                      | NEG                         | 54               |
| shin Flour Milling                 | 896                    | 2860                               | 12                            | 10                                 | 8       | 2.3                              | 38           | 0.5        | 3483b                    | 77b                        | 2336                      | 5.9                         | 44               |
| R Japan                            | 897                    | 2859                               | 13                            | 21                                 | 18      | 3.1                              | 125          | 0.8        | 860*                     | 23*                        | 1257a*                    | 2.5c*                       | 33               |
| rita Water Industries              | 898                    | 2859                               | 24                            | 43                                 | 40      | 5.7                              | 33           | 0.5        | 1209                     | 88                         | 1168                      | 17.4                        | 38               |
| nebea                              | 899                    | 2853                               | 7                             | 32                                 | 28      | 2.7                              | 253          | 0.8        | 1162bd                   | 6bd                        | 6754                      | 1.1                         | 37               |
| mpus Optical                       | 902                    | 2827                               | 11                            | -8                                 | -10     | 1.8                              | 68           | 1.2        | 2289b                    | 5b                         | 4201                      | 2.6                         | 46               |
| nitomo Realty & Development        | 910                    | 2810                               | 7                             | -5                                 | -7      | 1.1                              | 99           | 0.8        | 4271                     | 28                         | 19359                     | 1.1                         | 64               |
| zen Watch                          | 911                    | 2807                               | 9                             | -12                                | -14     | 1.7                              | 24           | 1.0        | 3899                     | 116                        | 4136                      | 7.2                         | 46               |
| subishi Warehouse & Transportation | 912                    | 2806                               | 17                            | 22                                 | 19      | 3.6                              | 45           | 0.4        | 1434b                    | 63b                        | 2410a                     | NA                          | 52               |
| kult Honsha                        | 913                    | 2803                               | 16                            | 2                                  | -1      | 1.7                              | 30           | 0.9        | 1703                     | 94                         | 2303                      | 5.7                         | 44               |
| nen                                | 921                    | 2771                               | 4                             | 7                                  | 4       | 2.4                              | 185          | 1.3        | 6660Ob                   | 15b                        | 22216                     | 1.3c                        | 59               |
| ugai Pharmaceutical                | 925                    | 2755                               | 11                            | -23                                | -25     | 2.7                              | 42           | 0.8        | 1524                     | 66                         | 2038a                     | 6.4c                        | 45               |
| y                                  | 927                    | 2749                               | 15                            | 4                                  | 2       | 1.7                              | LOSS         | 1.2        | 7878b                    | -2b                        | 4398a                     | NA                          | 54               |



# THE GLOBAL 1000

| COUNTRY<br>RANK |                                 | GLOBAL<br>1000<br>RANK | MARKET<br>VALUE<br>U.S.<br>\$ MIL. | PRICE<br>PER SHARE<br>U.S. \$ | % CHANGE<br>FROM 1993<br>(U.S. \$) |     | PRICE/<br>BOOK<br>VALUE<br>RATIO | P/E<br>RATIO | YIELD<br>% | SALES<br>U.S.<br>\$ MIL. | PROFITS<br>U.S.<br>\$ MIL. | ASSETS<br>U.S.<br>\$ MIL. | RETURN<br>ON<br>EQUITY<br>% |
|-----------------|---------------------------------|------------------------|------------------------------------|-------------------------------|------------------------------------|-----|----------------------------------|--------------|------------|--------------------------|----------------------------|---------------------------|-----------------------------|
| 258             | Nippon Electric Glass           | 944                    | 2692                               | 19                            | 36                                 | 33  | 2.7                              | 109          | 0.5        | 1959                     | 25                         | 2904                      | 2.5                         |
| 259             | Fujita Kanko                    | 949                    | 2671                               | 22                            | 5                                  | 3   | 7.6                              | 258          | 0.3        | 948                      | 10                         | 1768a                     | 2.9c                        |
| 260             | Nisshinbo Industries            | 951                    | 2665                               | 11                            | 21                                 | 18  | 1.5                              | 28           | 0.6        | 2312                     | 97                         | 3237                      | 5.3                         |
| 261             | Onoda Cement                    | 954                    | 2651                               | 6                             | -5                                 | -7  | 2.2                              | 31           | 0.9        | 5045                     | 86                         | 7116                      | 7.2                         |
| 262             | Arabian Oil                     | 960                    | 2645                               | 50                            | -13                                | -15 | 4.8                              | 124          | 0.8        | 2159a                    | 21a                        | 1734a                     | 3.9                         |
| 263             | Toho Gas                        | 965                    | 2634                               | 4                             | 3                                  | 0   | 2.9                              | 68           | 1.1        | 2236                     | 39                         | 3162                      | 4.3                         |
| 264             | Mitsubishi Rayon                | 968                    | 2626                               | 4                             | 6                                  | 4   | 2.1                              | NM           | 0.6        | 2938b                    | 1b                         | 4315                      | 0.1c                        |
| 265             | Japan Radio                     | 972                    | 2610                               | 19                            | 20                                 | 17  | 3.3                              | 116          | 0.4        | 2127b                    | 23b                        | 2373                      | 2.8c                        |
| 266             | Seino Transportation            | 980                    | 2575                               | 17                            | -5                                 | -7  | 1.4                              | 53           | 0.6        | 2765b                    | 48b                        | 2918                      | 2.6c                        |
| 267             | NGK Spark Plug                  | 984                    | 2568                               | 13                            | 30                                 | 27  | 2.7                              | 58           | 0.7        | 1116                     | 42                         | 1640                      | 4.6                         |
| 268             | Sumitomo Heavy Industries       | 986                    | 2565                               | 4                             | -6                                 | -8  | 3.8                              | LOSS         | 0.7        | 4606b                    | -11b                       | 6295                      | NEG                         |
| 269             | Yamaha                          | 987                    | 2559                               | 13                            | 24                                 | 21  | 1.7                              | LOSS         | 0.4        | 4258b                    | -38b                       | 4619                      | NEG                         |
| 270             | Mitsui Petrochemical Industries | 993                    | 2522                               | 8                             | 8                                  | 6   | 1.7                              | 46           | 0.7        | 3268                     | 55                         | 4578                      | 3.8                         |
| 271             | Keisei Electric Railway         | 995                    | 2518                               | 9                             | -25                                | -27 | 13.9                             | 138          | 0.4        | 1882                     | 18                         | 3473a                     | 10.1c                       |
| 272             | Kankaku Securities              | 996                    | 2515                               | 6                             | -5                                 | -7  | 1.6                              | LOSS         | 0.0        | NA                       | -482                       | 6183                      | NEG                         |
| 273             | Matsuzakaya                     | 997                    | 2514                               | 15                            | 32                                 | 29  | 3.0                              | 794          | 0.5        | 5159b                    | 3b                         | 2675                      | 0.4c                        |

## MALAYSIA

| COUNTRY COMPOSITE |                                 |     | 55434 | 6  | 58  | 60  | 6.4  | 45  | 0.8 | 7881 | 1771 | 38829 | 18.3  |
|-------------------|---------------------------------|-----|-------|----|-----|-----|------|-----|-----|------|------|-------|-------|
| 1                 | Tenaga Nasional                 | 111 | 15969 | 5  | 45  | 46  | 3.5  | 29  | 0.6 | 1951 | 591  | 8021  | 12.4  |
| 2                 | Telekom Malaysia                | 132 | 14634 | 7  | 26  | 27  | 5.2  | 31  | 0.8 | 1524 | 469  | 4063a | 16.6c |
| 3                 | Malayan Banking                 | 368 | 6638  | 6  | 91  | 92  | 5.1  | 35  | 0.7 | NA   | 152  | 21023 | 14.3  |
| 4                 | Resorts World                   | 425 | 5892  | 5  | 39  | 40  | 12.2 | 30  | 0.8 | 661  | 196  | 648a  | 40.8c |
| 5                 | Genting                         | 443 | 5609  | 12 | 59  | 61  | 7.3  | 30  | 0.6 | 777  | 186  | 1275a | 24.2c |
| 6                 | Sime Darby                      | 633 | 3950  | 3  | 37  | 38  | 3.2  | 23  | 2.1 | 2730 | 156  | 2822  | 13.9  |
| 7                 | Technology Resources Industries | 931 | 2742  | 4  | 113 | 115 | 8.2  | 134 | 0.0 | 238  | 21   | 977   | 6.1   |

## NETHERLANDS

| COUNTRY COMPOSITE |                                  |     | 153234 | 66  | 28 | 32 | 6.5  | 40  | 2.9 | 235418 | 12231 | 818230 | 31.2  |
|-------------------|----------------------------------|-----|--------|-----|----|----|------|-----|-----|--------|-------|--------|-------|
| 1                 | Royal Dutch Petroleum (1)        | NR  | 56651  | 106 | 13 | 16 | 1.7  | 19  | 4.4 | 95173  | 4497  | 99830  | 9.0   |
| 2                 | Unilever NV (2)                  | NR  | 16756  | 105 | -4 | -1 | 4.1  | 15  | 3.0 | 41960  | 1952  | 25979  | 27.5  |
| 3                 | Internationale Nederlanden Groep | 200 | 10951  | 41  | 11 | 15 | 0.9  | 10  | 4.6 | 11032  | 1066  | 184179 | 9.4   |
| 4                 | ABN AMRO Holding                 | 240 | 9617   | 33  | 13 | 17 | 0.8  | 10  | 5.1 | NA     | 998   | 266425 | 8.7   |
| 5                 | Philips Electronics              | 260 | 9130   | 28  | 82 | 88 | 1.4  | 17  | 1.0 | 31918  | 464   | 26504a | 8.2c  |
| 6                 | Akzo Nobel                       | 298 | 8014   | 113 | 40 | 45 | 1.8  | 16  | 3.1 | 8958   | 376   | 7391a  | 11.3c |
| 7                 | Polygram                         | 322 | 7490   | 42  | 61 | 66 | 6.8  | 22  | 1.0 | 4024   | 333   | 2875a  | 30.3  |
| 8                 | Elsevier (4)                     | NR  | 5967   | 91  | 27 | 31 | 11.4 | 22  | 3.1 | 4194   | 594   | 6216   | 51.4  |
| 9                 | Aegon                            | 473 | 5280   | 52  | 13 | 16 | 1.1  | 9   | 4.2 | 6702   | 545   | 69565  | 12.0  |
| 10                | Heineken                         | 506 | 4910   | 122 | 20 | 24 | 2.5  | 17  | 1.6 | 4910   | 281   | 4251a  | 14.2c |
| 11                | Walters Kluwer                   | 626 | 4000   | 62  | 26 | 30 | 13.3 | 23  | 1.3 | 1419   | 175   | 894    | 58.2  |
| 12                | Dordtsche Petroleum              | 746 | 3450   | 104 | 19 | 23 | 51.1 | 23  | 4.4 | NA     | 152a  | 68a    | 229.5 |
| 13                | Ahold                            | 860 | 3003   | 26  | 2  | 5  | 2.6  | 16  | 2.2 | 14701  | 289   | 4332   | 16.1  |
| 14                | AMEV (5)                         | NR  | 2795   | 40  | 3  | 6  | 1.1  | 9   | 4.7 | NA     | 533   | 109298 | 12.0c |
| 15                | DSM                              | 971 | 2618   | 73  | 57 | 62 | 1.2  | 284 | 1.1 | 4362   | -33   | 5462   | 0.4   |
| 16                | Koninklijke KNP BT               | 974 | 2601   | 26  | 65 | 71 | 2.1  | 119 | 0.9 | 6065   | -12   | 4963   | 1.7   |

## NEW ZEALAND

| COUNTRY COMPOSITE |                              |     | 12750 | 3 | 60 | 45 | 2.4 | 16 | 4.0 | 8427  | 661  | 15787 | 16.0  |
|-------------------|------------------------------|-----|-------|---|----|----|-----|----|-----|-------|------|-------|-------|
| 1                 | Telecom Corp. of New Zealand | 447 | 5561  | 3 | 54 | 40 | 3.8 | 18 | 4.6 | 1485b | 314b | 2828  | 21.6c |
| 2                 | Carter Holt Harvey           | 644 | 3909  | 2 | 42 | 30 | 1.7 | 20 | 4.1 | 1472b | 193b | 3917  | 8.2c  |
| 3                 | Fletcher Challenge           | 787 | 3279  | 2 | 83 | 66 | 1.7 | 9  | 3.3 | 5470  | 154  | 9042  | 18.3  |

## NORWAY

| COUNTRY COMPOSITE |             |     | 7568 | 33 | 26 | 33 | 2.3 | 15 | 1.5 | 8742 | 478 | 11150 | 15.6 |
|-------------------|-------------|-----|------|----|----|----|-----|----|-----|------|-----|-------|------|
| 1                 | Norsk Hydro | 319 | 7568 | 33 | 26 | 33 | 2.3 | 15 | 1.5 | 8742 | 478 | 11150 | 15.6 |

## SINGAPORE

| COUNTRY COMPOSITE |                               |     | 80214 | 9  | 52  | 45 | 4.8  | 31 | 0.9 | 8150  | 2624 | 109598 | 15.3  |
|-------------------|-------------------------------|-----|-------|----|-----|----|------|----|-----|-------|------|--------|-------|
| 1                 | Singapore Telecommunications  | 26  | 34813 | 2  | NA  | NA | 15.9 | 44 | 0.6 | 2081b | 784b | 3455b  | 35.9  |
| 2                 | Singapore Airlines            | 193 | 11126 | 9  | 33  | 27 | 2.2  | 21 | 1.2 | 3684  | 555  | 6686   | 10.3  |
| 3                 | OCBC Overseas Chinese Bank    | 321 | 7508  | 9  | 33  | 27 | 3.4  | 26 | 0.8 | NA    | 283  | 26836a | 13.2c |
| 4                 | Development Bank of Singapore | 354 | 6923  | 11 | 40  | 33 | 2.3  | 23 | 0.7 | NA    | 305  | 41266  | 10.2  |
| 5                 | United Overseas Bank          | 420 | 5947  | 8  | 53  | 46 | 3.3  | 19 | 1.1 | NA    | 298  | 18187a | 17.3c |
| 6                 | Singapore Press Holdings      | 525 | 4745  | 18 | 60  | 53 | 7.8  | 28 | 0.8 | 431   | 148  | 779    | 27.8  |
| 7                 | Keppel                        | 764 | 3372  | 7  | 42  | 36 | 2.4  | 27 | 1.3 | 997   | 123  | 7288   | 8.7   |
| 8                 | City Developments             | 820 | 3142  | 5  | 102 | 93 | 4.3  | 42 | 0.7 | NA    | 75   | 2909   | 10.3  |
| 9                 | Fraser & Neave                | 964 | 2640  | 12 | 51  | 44 | 1.8  | 48 | 0.7 | 956   | 54   | 2193   | 3.8   |

## SOUTH AFRICA

| COUNTRY COMPOSITE |                                      |     | 24462 | 22 | 43 | 47 | 2.0 | 19 | 3.0 | NA | 1468 | 10364 | 10.3 |
|-------------------|--------------------------------------|-----|-------|----|----|----|-----|----|-----|----|------|-------|------|
| 1                 | Anglo American                       | 209 | 10658 | 46 | 53 | 58 | 1.9 | 26 | 2.1 | NA | 391  | 6855  | 7.1  |
| 2                 | De Beers Centenary                   | 297 | 8030  | 21 | 20 | 24 | 1.1 | 10 | 3.7 | NA | 790* | NA    | 10.4 |
| 3                 | Gencor                               | 877 | 2954  | 2  | 65 | 71 | 1.6 | 18 | 4.4 | NA | 169  | 1961  | 8.9  |
| 4                 | Johannesburg Consolidated Investment | 905 | 2820  | 19 | 32 | 36 | 3.4 | 23 | 2.0 | NA | 119  | 1547  | 14.8 |

# THE GLOBAL 1000

|                                    | GLOBAL<br>1000<br>RANK | MARKET<br>VALUE<br>U.S.<br>\$ MIL. | PRICE<br>PER SHARE<br>U.S. \$ | % CHANGE<br>FROM 1993<br>(U.S. \$) | (LOCAL)   | PRICE/<br>BOOK<br>VALUE<br>RATIO | P/E<br>RATIO | YIELD<br>% | SALES<br>U.S.<br>\$ MIL. | PROFITS<br>U.S.<br>\$ MIL. | ASSETS<br>U.S.<br>\$ MIL. | RETURN<br>ON<br>EQUITY<br>% | INDUSTRY<br>CODE |
|------------------------------------|------------------------|------------------------------------|-------------------------------|------------------------------------|-----------|----------------------------------|--------------|------------|--------------------------|----------------------------|---------------------------|-----------------------------|------------------|
| <b>Y COMPOSITE</b>                 |                        | <b>73208</b>                       | <b>40</b>                     | <b>13</b>                          | <b>22</b> | <b>2.0</b>                       | <b>15</b>    | <b>4.0</b> | <b>41895</b>             | <b>5334</b>                | <b>437558</b>             | <b>13.9</b>                 |                  |
| Telefónica Nacional de España      | 160                    | 12750                              | 14                            | 23                                 | 32        | 1.3                              | 18           | 3.3        | 9570                     | 711                        | 30255                     | 7.2                         | 55               |
| Telefónica                         | 165                    | 12562                              | 48                            | 40                                 | 50        | 2.6                              | 14           | 2.2        | 5433                     | 862                        | 12887                     | 18.1                        | 12               |
| Telefonos                          | 242                    | 9471                               | 32                            | 25                                 | 34        | 2.8                              | 15           | 2.7        | 16350                    | 591                        | 9929a                     | 17.8c                       | 11               |
| Telefonos                          | 365                    | 6689                               | 7                             | 23                                 | 33        | 1.0                              | 13           | 6.1        | 5835                     | 447                        | 23883a                    | 7.6c                        | 12               |
| Banco Bilbao Vizcaya               | 461                    | 5444                               | 24                            | -7                                 | 1         | 1.4                              | 10           | 5.3        | NA                       | 524                        | 74416a                    | NA                          | 61               |
| Bancaria, Corp. Bancaria de España | 469                    | 5323                               | 42                            | 13                                 | 22        | 1.3                              | 11           | 4.3        | NA                       | 478                        | 80107                     | 11.7                        | 61               |
| Banco de Santander                 | 505                    | 4923                               | 44                            | -4                                 | 3         | 1.8                              | 10           | 4.9        | NA                       | 490                        | 77024                     | 18.0                        | 61               |
| Banco Central                      | 713                    | 3556                               | 22                            | -21                                | -15       | 0.8                              | 11           | 7.1        | NA                       | 357                        | 73311a                    | 7.6c                        | 61               |
| Banco Exterior de España           | 769                    | 3354                               | 32                            | 0                                  | 8         | 1.9                              | 13           | 4.1        | NA                       | 257                        | 31208a                    | NA                          | 61               |
| Banco Popular Español              | 790                    | 3255                               | 113                           | -2                                 | 5         | 1.8                              | 8            | 5.1        | NA                       | 398                        | 21129                     | 22.0                        | 61               |
| Seguros Natural SDG                | 821                    | 3132                               | 84                            | 50                                 | 62        | 3.4                              | 29           | 1.0        | 1145                     | 108                        | 1454a                     | 11.7c                       | 12               |
| Seguros                            | 926                    | 2750                               | 15                            | 22                                 | 31        | 4.2                              | 25           | 1.3        | 3561                     | 111                        | 1954a                     | 16.8c                       | 54               |

## NORWAY

|                    |     |              |           |           |           |            |           |            |              |             |               |             |    |
|--------------------|-----|--------------|-----------|-----------|-----------|------------|-----------|------------|--------------|-------------|---------------|-------------|----|
| <b>Y COMPOSITE</b> |     | <b>69610</b> | <b>36</b> | <b>39</b> | <b>51</b> | <b>2.5</b> | <b>52</b> | <b>1.6</b> | <b>86369</b> | <b>1873</b> | <b>209143</b> | <b>10.4</b> |    |
| Equinor            | 156 | 12879        | 21        | 0         | 9         | 6.1        | 16        | 1.0        | 2900         | 782         | 3555          | 37.7        | 45 |
| Equinor            | 210 | 10644        | 49        | 9         | 18        | 3.9        | 26        | 1.2        | 8078         | 364         | 8660          | 14.8        | 34 |
| Equinor            | 340 | 7200         | 93        | 65        | 79        | 2.1        | LOSS      | 1.1        | 14263        | -445        | 17261         | NEG         | 42 |
| Equinor (3)        | NR  | 7156         | 79        | 25        | 35        | 4.1        | 29        | 1.6        | 28315        | 68          | 24904         | 14.1        | 34 |
| Equinor            | 595 | 4190         | 15        | 14        | 24        | 2.4        | 25        | 1.9        | 2794         | 166         | 3224          | 9.4         | 25 |
| Equinor            | 602 | 4143         | 16        | 1         | 10        | 2.1        | 12        | 1.7        | 3171         | 278         | 4308          | 17.1        | 45 |
| Equinor            | 667 | 3787         | 52        | 68        | 82        | 1.8        | 31        | 1.6        | 12848        | 75          | 9190a         | 5.8         | 41 |
| Equinor            | 670 | 3777         | 24        | 52        | 64        | 2.0        | 178       | 2.8        | NA           | 61          | 8163a         | 1.1c        | 71 |
| Equinor            | 754 | 3414         | 6         | 138       | 158       | 1.1        | 185       | 0.0        | NA           | 18          | 57521         | 0.6         | 61 |
| Equinor            | 788 | 3268         | 55        | 17        | 27        | 1.2        | 39        | 1.5        | 6472         | 84          | 9476a         | 3.0c        | 23 |
| Equinor            | 797 | 3217         | 14        | 48        | 60        | 1.2        | 15        | 1.8        | NA           | 219         | 51362         | 7.9         | 61 |
| Equinor            | 856 | 3022         | 24        | 84        | 99        | 3.3        | 46        | 1.7        | 3241         | 66          | 5839a         | 7.3c        | 32 |
| Equinor            | 885 | 2912         | 15        | -11       | -3        | 1.1        | 18        | 2.9        | 4288         | 137         | 5678          | 6.4         | 23 |

## SWITZERLAND

|                           |     |               |             |           |           |            |           |            |               |              |               |             |    |
|---------------------------|-----|---------------|-------------|-----------|-----------|------------|-----------|------------|---------------|--------------|---------------|-------------|----|
| <b>Y COMPOSITE</b>        |     | <b>209421</b> | <b>1359</b> | <b>27</b> | <b>26</b> | <b>2.5</b> | <b>27</b> | <b>1.7</b> | <b>160577</b> | <b>12122</b> | <b>891297</b> | <b>12.2</b> |    |
| Swiss Holding             | 16  | 47262         | 9145        | 65        | 63        | 6.2        | 44        | 0.4        | 10215         | 1766         | 22043         | 14.2        | 45 |
| Swiss Holding             | 32  | 31486         | 818         | 5         | 3         | 3.0        | 15        | 2.2        | 40984         | 2060         | 32066         | 19.6        | 44 |
| Swiss Bank of Switzerland | 67  | 22358         | 852         | 22        | 21        | 1.4        | 13        | 2.7        | NA            | 1617         | 221882        | 10.8        | 61 |
| Swiss Bank                | 94  | 18003         | 513         | 11        | 9         | 2.6        | 15        | 1.6        | 10763         | 1216         | 14398         | 17.0        | 45 |
| Swiss Bank                | 96  | 17869         | 627         | 33        | 31        | 1.6        | 15        | 1.7        | 16142         | 1268         | 22641         | 10.7        | 22 |
| Swiss Bank                | 130 | 14730         | 442         | 23        | 21        | 1.6        | 10        | 2.9        | NA            | 1421         | 246959        | 15.2        | 61 |
| Swiss Bank Corp.          | 211 | 10584         | 288         | 11        | 9         | 1.2        | 11        | 4.0        | NA            | 973          | 147541        | 11.0        | 61 |
| Swiss Bank                | 271 | 8731          | 957         | 22        | 20        | 1.5        | 25        | 1.3        | 13966a        | 350a         | 52680a        | 6.0         | 63 |
| Swiss Bank                | NR  | 7853          | 898         | 53        | 51        | 3.8        | 124       | 1.4        | 28315         | 68           | 24904         | 3.1         | 34 |
| Swiss Bank                | 441 | 5620          | 453         | 9         | 7         | 1.9        | 29        | 1.5        | 15627a        | 200a         | 42552a        | 6.8         | 63 |
| Swiss Bank                | 528 | 4729          | 823         | -11       | -13       | 2.0        | 15        | 0.0        | 5201          | 315          | 8963          | 13.3        | 71 |
| Swiss Bank                | 615 | 4089          | 492         | 9         | 8         | 1.4        | 26        | 2.3        | 11048a        | 167a         | 37063a        | 5.6         | 63 |
| Swiss Bank                | 630 | 3970          | 579         | NA        | NA        | 3.5        | 13        | 1.2        | 2024a         | 294a         | 1865a         | 27.3        | 46 |
| Swiss Bank                | 631 | 3957          | 688         | 44        | 42        | 1.8        | 19        | 1.6        | NA            | 205          | 8486a         | 9.5c        | 21 |
| Swiss Bank                | 893 | 2876          | 469         | 42        | 40        | 1.8        | 43        | 1.9        | 4411          | 59           | 4237          | 4.2         | 24 |
| Swiss Bank                | 952 | 2661          | 1511        | 37        | 35        | 4.1        | 19        | 2.2        | 1883          | 140          | 1882          | 21.5        | 52 |
| Swiss Bank                | 962 | 2643          | 3542        | 63        | 60        | 2.5        | NA        | 0.0        | NA            | 5*           | 1134*         | NA          | 62 |

## UNITED STATES

|                    |    |                |           |          |          |            |           |            |                |               |                |             |    |
|--------------------|----|----------------|-----------|----------|----------|------------|-----------|------------|----------------|---------------|----------------|-------------|----|
| <b>Y COMPOSITE</b> |    | <b>3240696</b> | <b>90</b> | <b>7</b> | <b>7</b> | <b>3.6</b> | <b>24</b> | <b>2.6</b> | <b>2900642</b> | <b>173493</b> | <b>7432669</b> | <b>18.4</b> |    |
| General Electric   | 3  | 84938          | 50        | 7        | 7        | 3.3        | 19        | 2.9        | 60562          | 4424          | 251506         | 17.1        | 34 |
| General Electric   | 5  | 75917          | 61        | -7       | -7       | 2.2        | 15        | 4.7        | 99161          | 5280          | 84145          | 14.9        | 11 |
| General Electric   | 7  | 73875          | 55        | -11      | -11      | 5.3        | 17        | 2.4        | 67200          | 4260          | 60770          | 31.8        | 55 |
| General Electric   | 13 | 54010          | 24        | -16      | -16      | 5.0        | 23        | 0.7        | 67345b         | 2333b         | 26441b         | 22.2        | 54 |
| General Electric   | 14 | 52245          | 40        | -3       | -3       | 11.4       | 23        | 1.9        | 13957          | 2188          | 12021          | 49.0        | 43 |
| General Electric   | 18 | 43192          | 49        | -2       | -2       | 3.7        | 12        | 5.6        | 60901          | 3568          | 51205          | 30.3        | 43 |
| General Electric   | 19 | 42010          | 62        | 18       | 18       | 3.8        | 60        | 2.8        | 37098          | 566           | 37053          | 6.4         | 22 |
| General Electric   | 21 | 38700          | 54        | 34       | 34       | 6.4        | 15        | 1.5        | 119686         | 2466          | 188201         | 42.6        | 42 |
| General Electric   | 22 | 38434          | 56        | 15       | 15       | 7.0        | 81        | 2.2        | 30433          | 269           | 24935          | 8.7         | 44 |
| General Electric   | 23 | 38245          | 31        | -20      | -20      | 3.8        | 16        | 3.7        | 10498          | 2166          | 19928          | 23.4        | 45 |
| General Electric   | 24 | 36673          | 63        | 19       | 19       | 2.0        | LOSS      | 1.6        | 62716          | -7987         | 81113          | NEG         | 33 |
| General Electric   | 30 | 32252          | 81        | 16       | 16       | 2.0        | 16        | 4.2        | 63474          | 2084          | 40585          | 12.5        | 11 |
| General Electric   | 33 | 30509          | 54        | 16       | 16       | 9.3        | 31        | 0.0        | 3753           | 953           | 3805           | 30.0        | 52 |
| General Electric   | 35 | 29588          | 93        | 9        | 9        | 1.9        | 15        | 0.4        | 21155          | 1918          | 101015         | 12.5        | 63 |
| General Electric   | 36 | 29517          | 60        | 15       | 15       | 2.2        | 24        | 4.6        | 15900          | 1030          | 32870          | 8.9         | 55 |
| General Electric   | 37 | 29512          | 31        | -12      | -12      | 3.1        | 29        | 6.1        | 19748          | 990           | 41575          | 10.7        | 55 |
| General Electric   | 38 | 29226          | 59        | 5        | 5        | 2.1        | 16        | 3.7        | 28622          | 1820          | 28490          | 13.3        | 11 |
| General Electric   | 40 | 28817          | 58        | 11       | 11       | 1.9        | 10        | 3.1        | 108521         | 2529          | 198938         | 19.4        | 42 |
| General Electric   | 41 | 28757          | 36        | -1       | -1       | 5.4        | 18        | 2.0        | 25021          | 1588          | 23706          | 29.7c       | 43 |
| General Electric   | 42 | 28452          | 44        | -1       | -1       | 5.1        | 16        | 2.6        | 14138          | 1787          | 12242          | 32.6        | 45 |
| General Electric   | 43 | 28339          | 87        | -1       | -1       | 2.0        | 24        | 4.3        | 32123          | 1265          | 34736          | 8.5         | 11 |



# THE GLOBAL 1000

| COUNTRY RANK |                               | GLOBAL 1000 RANK | MARKET VALUE U.S. \$ MIL. | PRICE PER SHARE U.S. \$ | % CHANGE FROM 1993 (U.S. \$) | (LOCAL) | PRICE/BOOK VALUE RATIO | P/E RATIO | YIELD % | SALES U.S. \$ MIL. | PROFITS U.S. \$ MIL. | ASSETS U.S. \$ MIL. | RETURN ON EQUITY % |
|--------------|-------------------------------|------------------|---------------------------|-------------------------|------------------------------|---------|------------------------|-----------|---------|--------------------|----------------------|---------------------|--------------------|
| 22           | Bristol-Myers Squibb          | 44               | 28296                     | 55                      | -9                           | -9      | 4.8                    | 14        | 5.3     | 11413              | 1959                 | 12101               | 33.4               |
| 23           | Intel                         | 48               | 26125                     | 63                      | 13                           | 13      | 3.5                    | 12        | 0.4     | 8782               | 2295                 | 11344               | 29.9               |
| 24           | Motorola                      | 49               | 26049                     | 47                      | 15                           | 15      | 4.1                    | 24        | 0.6     | 16963              | 1022                 | 13498               | 16.9               |
| 25           | Southwestern Bell             | 54               | 24685                     | 41                      | 7                            | 7       | 3.2                    | 17        | 3.8     | 10690              | 1435                 | 24308               | 19.6               |
| 26           | Abbott Laboratories           | 58               | 24531                     | 30                      | 10                           | 10      | 6.7                    | 17        | 2.5     | 8408               | 1399                 | 7689                | 38.6               |
| 27           | Walt Disney                   | 60               | 23249                     | 43                      | -1                           | -1      | 4.6                    | 23        | 0.7     | 8529               | 1021                 | 11751               | 19.8               |
| 28           | Bell Atlantic                 | 62               | 22898                     | 53                      | -2                           | -2      | 2.7                    | 15        | 5.2     | 13000              | 1480                 | 28100a              | 17.5c              |
| 29           | Fannie Mae                    | 63               | 22750                     | 84                      | 10                           | 10      | 2.8                    | 11        | 2.9     | NA                 | 2043                 | 216979              | 26.0               |
| 30           | McDonald's                    | 64               | 22543                     | 62                      | 25                           | 25      | 4.3                    | 21        | 0.8     | 7408               | 1083                 | 11681a              | 20.9c              |
| 31           | Minnesota Mining & Mfg.       | 70               | 21828                     | 51                      | -10                          | -10     | 3.4                    | 18        | 3.5     | 14020              | 1263                 | 12197               | 19.0               |
| 32           | Ameritech                     | 71               | 21387                     | 39                      | 8                            | 8       | 2.7                    | 14        | 4.9     | 11710              | 1510                 | 23430               | 19.9               |
| 33           | Pfizer                        | 77               | 20459                     | 64                      | -11                          | -11     | 5.3                    | 29        | 2.9     | 7478               | 658                  | 9331                | 18.4               |
| 34           | Home Depot                    | 79               | 20017                     | 45                      | -2                           | -2      | 8.7                    | 42        | 0.4     | 9239b              | 457b                 | 3932                | 20.8c              |
| 35           | Hewlett-Packard               | 80               | 19861                     | 79                      | -6                           | -6      | 2.3                    | 15        | 1.5     | 20317              | 1177                 | 16736               | 15.5               |
| 36           | Berkshire Hathaway (7)        | 89               | 18966                     | 16100                   | 7                            | 7       | 1.8                    | 24        | 0.0     | 3653               | 759                  | 19520               | 7.7                |
| 37           | Dow Chemical                  | 91               | 18734                     | 68                      | 21                           | 21      | 2.3                    | 46        | 3.8     | 18060              | 644                  | 25505               | 5.1                |
| 38           | American Home Products        | 95               | 17985                     | 58                      | -13                          | -13     | 4.6                    | 12        | 5.0     | 8305               | 1469                 | 7687                | 38.3               |
| 39           | Sears, Roebuck                | 98               | 17762                     | 51                      | 26                           | 26      | 1.8                    | 10        | 3.2     | 50838              | 2409                 | 90808               | 17.8               |
| 40           | US West                       | 99               | 17711                     | 40                      | -7                           | -7      | 3.0                    | 35        | 5.3     | 10294              | 476                  | 20680               | 8.7                |
| 41           | BankAmerica                   | 102              | 17359                     | 49                      | 9                            | 9       | 1.2                    | 10        | 3.3     | NA                 | 1954                 | 186900              | 12.3               |
| 42           | Chrysler                      | 104              | 17221                     | 50                      | 12                           | 12      | 2.6                    | 7         | 2.0     | 42260              | 2248                 | 43830               | 38.3               |
| 43           | Eli Lilly                     | 105              | 16760                     | 57                      | 12                           | 12      | 3.7                    | 37        | 4.4     | 6452               | 491                  | 9624                | 9.9                |
| 44           | Texaco                        | 106              | 16414                     | 64                      | -1                           | -1      | 1.9                    | 15        | 5.0     | 34071              | 1259                 | 26626               | 12.3               |
| 45           | Atlantic Richfield            | 108              | 16135                     | 101                     | -19                          | -19     | 2.6                    | 23        | 5.5     | 18847              | 814                  | 23894               | 11.3               |
| 46           | Boeing                        | 113              | 15741                     | 46                      | 17                           | 17      | 1.8                    | 13        | 2.2     | 25438              | 1244                 | 20450               | 13.5               |
| 47           | Nynex                         | 114              | 15692                     | 38                      | -10                          | -10     | 1.6                    | 13        | 6.3     | 13408              | 1202                 | 27714a              | 12.0c              |
| 48           | Eastman Kodak                 | 117              | 15441                     | 47                      | 15                           | 15      | 2.3                    | 33        | 3.4     | 16364              | 475                  | 20307a              | 7.1c               |
| 49           | Gillette                      | 119              | 15345                     | 70                      | 35                           | 35      | 11.2                   | 34        | 1.4     | 5562               | 435                  | 5102                | 32.9               |
| 50           | Citicorp                      | 120              | 15266                     | 40                      | 39                           | 39      | 1.5                    | 8         | 1.5     | NA                 | 2125                 | 216574              | 18.9               |
| 51           | NationsBank                   | 125              | 15001                     | 55                      | 18                           | 18      | 1.5                    | 10        | 3.3     | NA                 | 1301                 | 157686              | 15.0               |
| 52           | Anheuser-Busch                | 134              | 14520                     | 54                      | 4                            | 4       | 3.4                    | 24        | 2.6     | 11505              | 595                  | 10880               | 14.1               |
| 53           | Time Warner                   | 136              | 14462                     | 39                      | 7                            | 7       | 1.8                    | LOSS      | 0.9     | 6581               | -164                 | 27370a              | NEG                |
| 54           | Schlumberger                  | 140              | 13943                     | 57                      | -12                          | -12     | 3.2                    | 24        | 2.1     | 6705               | 583                  | 7917                | 13.0               |
| 55           | Emerson Electric              | 143              | 13683                     | 61                      | 1                            | 1       | 3.5                    | 19        | 2.6     | 8174               | 708                  | 7815                | 18.8               |
| 56           | WMX Technologies              | 145              | 13513                     | 27                      | -20                          | -20     | 3.1                    | 32        | 2.2     | 9136               | 453                  | 14114a              | 9.8c               |
| 57           | Columbia/HCA Healthcare (7)   | 147              | 13470                     | 40                      | 48                           | 48      | 3.8                    | 27        | 0.3     | 10252              | 575                  | 10216               | 14.3               |
| 58           | American Express              | 150              | 13259                     | 28                      | 10                           | 10      | 1.6                    | 12        | 3.6     | NA                 | 1605                 | 94132               | 13.7               |
| 59           | Sprint                        | 153              | 13045                     | 38                      | 16                           | 16      | 3.3                    | 18        | 2.6     | 11368              | 481                  | 14149               | 18.1               |
| 60           | MCI Communications            | 154              | 13027                     | 24                      | -8                           | -8      | 2.8                    | 21        | 0.2     | 11921              | 627                  | 11276               | 13.4               |
| 61           | Pacific Telesis Group         | 157              | 12849                     | 30                      | 10                           | 10      | 1.7                    | 27        | 7.2     | 9244               | 191                  | 23437               | 6.1                |
| 62           | J. P. Morgan                  | 158              | 12768                     | 66                      | -2                           | -2      | 1.4                    | 8         | 4.1     | NA                 | 1723                 | 133888              | 16.5               |
| 63           | Banc One                      | 162              | 12702                     | 33                      | -14                          | -14     | 1.9                    | 11        | 3.7     | NA                 | 1121                 | 79920               | 17.6               |
| 64           | Schering-Plough               | 164              | 12629                     | 65                      | -2                           | -2      | 8.0                    | 15        | 3.1     | 4341               | 825                  | 4317                | 54.0               |
| 65           | Union Pacific                 | 175              | 12105                     | 59                      | -5                           | -5      | 2.5                    | 15        | 2.7     | 7561               | 705                  | 15001               | 16.8               |
| 66           | J. C. Penney                  | 177              | 12070                     | 51                      | 7                            | 7       | 2.4                    | 12        | 3.3     | 18983b             | 944b                 | 14788b              | 19.2               |
| 67           | Southern Co.                  | 181              | 11889                     | 19                      | -9                           | -9      | 1.5                    | 12        | 6.4     | 8489               | 1002                 | 25911               | 12.6               |
| 68           | Kellogg                       | 182              | 11884                     | 52                      | -3                           | -3      | 7.0                    | 17        | 2.6     | 6295               | 681                  | 4237                | 40.0               |
| 69           | Allstate                      | 183              | 11813                     | 26                      | NA                           | NA      | 1.8                    | 16        | 2.7     | NA                 | 1302                 | 52100a              | 10.9c              |
| 70           | AirTouch Communications       | 185              | 11798                     | 24                      | NA                           | NA      | 3.6                    | 152       | 0.0     | 988                | 40                   | 4077                | 2.4                |
| 71           | Capital Cities/ABC            | 189              | 11496                     | 740                     | 40                           | 40      | 3.1                    | 23        | 0.0     | 5674               | 467                  | 6522a               | 13.4c              |
| 72           | Pacific Gas & Electric        | 199              | 11001                     | 26                      | -25                          | -25     | 1.3                    | 11        | 7.6     | 10582              | 1065                 | 27163               | 11.6               |
| 73           | Caterpillar                   | 201              | 10886                     | 107                     | 49                           | 49      | 5.0                    | 22        | 0.6     | 11615              | 345                  | 14807               | 22.9               |
| 74           | McCaw Cellular Communications | 204              | 10764                     | 52                      | 20                           | 20      | LOSS                   | LOSS      | 0.0     | 2195               | -227                 | 9065                | NEG                |
| 75           | Federal Home Loan Mortgage    | 212              | 10492                     | 58                      | 16                           | 16      | 2.4                    | 13        | 1.8     | NA                 | 786                  | 83880               | 18.3               |
| 76           | Xerox                         | 213              | 10464                     | 101                     | 33                           | 33      | 2.6                    | LOSS      | 3.0     | 14601              | -169                 | 38750               | NEG                |
| 77           | Sara Lee                      | 215              | 10436                     | 22                      | -18                          | -18     | 2.9                    | 15        | 3.0     | 14580              | 704                  | 10862               | 20.1               |
| 78           | Dun & Bradstreet              | 216              | 10382                     | 58                      | -1                           | -1      | 4.8                    | 17        | 4.5     | 4710               | 596                  | 4915a               | 28.2c              |
| 79           | Toys 'R' Us                   | 219              | 10231                     | 36                      | -10                          | -10     | 3.3                    | 22        | 0.0     | 7946b              | 483b                 | 6150b               | 15.1               |
| 80           | Travelers                     | 220              | 10229                     | 33                      | -6                           | -6      | 1.0                    | 8         | 1.8     | NA                 | 951                  | 101360              | 12.0               |
| 81           | General Re                    | 223              | 10143                     | 120                     | 5                            | 5       | 2.1                    | 16        | 1.6     | 2524               | 697                  | 18469               | 13.0               |
| 82           | AlliedSignal                  | 225              | 9967                      | 35                      | 5                            | 5       | 4.2                    | 15        | 1.9     | 11827              | 656                  | 10829               | 28.6               |
| 83           | ITT                           | 229              | 9816                      | 84                      | 9                            | 9       | 1.4                    | 11        | 2.4     | 22762              | 910                  | 70560               | 13.0               |
| 84           | Oracle Systems                | 230              | 9789                      | 34                      | 64                           | 64      | 18.5                   | 43        | 0.0     | 1503               | 142                  | 1184                | 43.4               |
| 85           | Chemical Banking              | 235              | 9704                      | 38                      | 0                            | 0       | 1.0                    | 7         | 4.0     | NA                 | 1539                 | 149888              | 14.8               |
| 86           | May Department Stores         | 239              | 9627                      | 39                      | 5                            | 5       | 3.0                    | 14        | 2.7     | 11529b             | 711b                 | 8545                | 22.1c              |
| 87           | Monsanto                      | 241              | 9481                      | 82                      | 42                           | 42      | 3.3                    | 18        | 3.1     | 7902               | 494                  | 8640                | 18.5               |
| 88           | Warner-Lambert                | 245              | 9440                      | 70                      | -4                           | -4      | 6.8                    | 28        | 3.5     | 5794               | 285                  | 4828                | 24.3               |
| 89           | Compaq Computer               | 246              | 9440                      | 118                     | 104                          | 104     | 3.7                    | 18        | 0.0     | 7191               | 462                  | 4084                | 20.9               |
| 90           | Electronic Data Systems (7)   | 250              | 9307                      | 35                      | 11                           | 11      | 2.5                    | 23        | 1.4     | 8507               | 724                  | 6942                | 10.8               |
| 91           | Campbell Soup                 | 252              | 9262                      | 37                      | -8                           | -8      | 5.4                    | 30        | 3.0     | 6586               | 257                  | 4898                | 18.1               |
| 92           | Kimberly-Clark                | 261              | 9094                      | 57                      | 21                           | 21      | 3.7                    | 17        | 3.1     | 6973               | 511                  | 6381                | 21.3               |
| 93           | Tele-Communications           | 263              | 8986                      | 21                      | -8                           | -8      | 4.5                    | LOSS      | 0.0     | 4153               | -7                   | 16520               | NEG                |
| 94           | Norfolk Southern              | 266              | 8812                      | 64                      | 3                            | 3       | 1.9                    | 16        | 3.0     | 4460               | 549                  | 10520               | 12.0               |
| 95           | General Mills                 | 268              | 8787                      | 55                      | -16                          | -16     | 7.2                    | 17        | 3.4     | 8135               | 506                  | 4651                | 42.8               |
| 96           | Archer Daniels Midland        | 273              | 8683                      | 24                      | 6                            | 6       | 1.8                    | 17        | 0.4     | 9811               | 535                  | 8405                | 10.4               |
| 97           | H. J. Heinz                   | 274              | 8680                      | 34                      | -11                          | -11     | 3.7                    | 16        | 3.9     | 7103               | 530                  | 6821                | 23.1               |

# THE GLOBAL 1000

|                                     | GLOBAL<br>1000<br>RANK | MARKET<br>VALUE<br>U.S.<br>\$ MIL. | PRICE<br>PER SHARE<br>U.S. \$ | % CHANGE<br>FROM 1993<br>(U.S. \$) (LOCAL) |     | PRICE/<br>BOOK<br>VALUE<br>RATIO | P/E<br>RATIO | YIELD<br>% | SALES<br>U.S.<br>\$ MIL. | PROFITS<br>U.S.<br>\$ MIL. | ASSETS<br>U.S.<br>\$ MIL. | RETURN<br>ON<br>EQUITY<br>% | INDUSTRY<br>CODE |
|-------------------------------------|------------------------|------------------------------------|-------------------------------|--------------------------------------------|-----|----------------------------------|--------------|------------|--------------------------|----------------------------|---------------------------|-----------------------------|------------------|
| Wells Fargo                         | 276                    | 8658                               | 157                           | 49                                         | 49  | 2.4                              | 13           | 2.6        | NA                       | 612                        | 52513                     | 18.0                        | 61               |
| Gate-Palmolive                      | 277                    | 8545                               | 57                            | -2                                         | -2  | 5.8                              | 47           | 2.5        | 7141                     | 190                        | 5761                      | 12.4                        | 44               |
| Verhaeuser                          | 278                    | 8537                               | 42                            | -8                                         | -8  | 2.2                              | 16           | 2.9        | 9545                     | 527                        | 12638                     | 13.3                        | 23               |
| International Paper                 | 279                    | 8518                               | 69                            | 4                                          | 4   | 1.4                              | 29           | 2.4        | 13700                    | 289                        | 16459a                    | 4.8c                        | 23               |
| Phillips Petroleum                  | 281                    | 8498                               | 33                            | 5                                          | 5   | 3.2                              | 27           | 3.4        | 12309                    | 245                        | 10868                     | 11.7                        | 11               |
| The Chem                            | 283                    | 8453                               | 62                            | 13                                         | 13  | 2.0                              | 16           | 2.2        | 9201                     | 693                        | 7258                      | 12.6                        | 31               |
| Advanced Technologies               | 285                    | 8366                               | 66                            | 26                                         | 26  | 2.3                              | 17           | 2.7        | 21081                    | 487                        | 15618                     | 13.4                        | 31               |
| West                                | 289                    | 8220                               | 27                            | 8                                          | 8   | 2.4                              | 12           | 2.8        | NA                       | 654                        | 50782                     | 20.2                        | 61               |
| Ameco                               | 292                    | 8129                               | 48                            | -1                                         | -1  | 3.1                              | 17           | 3.3        | 13255                    | 451                        | 15373                     | 18.3                        | 71               |
| Trill Lynch                         | 296                    | 8081                               | 39                            | 3                                          | 3   | 1.8                              | 6            | 2.4        | NA                       | 1394                       | 107024a                   | 28.6c                       | 62               |
| Industries                          | 301                    | 7986                               | 75                            | 3                                          | 3   | 3.2                              | 26           | 3.0        | 5754                     | 295                        | 5652                      | 12.5                        | 22               |
|                                     | 303                    | 7967                               | 77                            | 8                                          | 8   | 2.5                              | 16           | 2.3        | 8940                     | 471                        | 13420                     | 15.5                        | 57               |
| Union                               | 304                    | 7963                               | 47                            | 5                                          | 5   | 1.5                              | 10           | 3.4        | NA                       | 818                        | 70787                     | 15.9                        | 61               |
| Power                               | 307                    | 7934                               | 36                            | 7                                          | -7  | 1.7                              | 12           | 5.2        | 4282                     | 626                        | 12193                     | 14.0                        | 12               |
| McKwell International               | 309                    | 7873                               | 36                            | 15                                         | 15  | 2.7                              | 13           | 2.8        | 10840                    | 562                        | 9885                      | 20.3                        | 37               |
| Corp                                | 313                    | 7850                               | 33                            | 5                                          | 5   | 1.9                              | 11           | 3.9        | NA                       | 710                        | 59631                     | 16.9                        | 61               |
| Amnnett                             | 316                    | 7771                               | 53                            | 2                                          | 2   | 4.0                              | 19           | 2.5        | 3642                     | 398                        | 3824                      | 21.1                        | 51               |
| an                                  | 318                    | 7597                               | 31                            | 7                                          | 7   | 3.1                              | 22           | 2.5        | 7972                     | 333                        | 11504                     | 14.2                        | 12               |
| Automatic Data Processing           | 320                    | 7532                               | 53                            | 10                                         | 10  | 5.0                              | 23           | 1.1        | 2223                     | 294                        | 2439                      | 21.0                        | 52               |
| Med Healthcare                      | 325                    | 7417                               | 48                            | 61                                         | 61  | 7.7                              | 35           | 0.0        | 2527                     | 195                        | 1494                      | 22.0                        | 52               |
| Gas Utilities                       | 326                    | 7403                               | 33                            | -30                                        | -30 | 1.1                              | 26           | 9.3        | 5435                     | 369                        | 21518                     | 4.3                         | 12               |
| Gas Instruments                     | 332                    | 7288                               | 80                            | 24                                         | 24  | 3.1                              | 14           | 0.9        | 8523                     | 476                        | 5993                      | 21.9                        | 35               |
| International                       | 334                    | 7266                               | 49                            | 13                                         | 13  | 4.6                              | 16           | 2.8        | 6738                     | 455                        | 5061                      | 28.6                        | 44               |
| C Bank                              | 341                    | 7195                               | 31                            | -4                                         | -4  | 1.7                              | 10           | 4.2        | NA                       | 745                        | 62080                     | 17.5                        | 61               |
| ster International                  | 345                    | 7120                               | 26                            | -13                                        | -13 | 2.2                              | LOSS         | 3.9        | 8879                     | 268                        | 10545                     | NEG                         | 45               |
| ertson's                            | 347                    | 7106                               | 28                            | 2                                          | 2   | 5.4                              | 20           | 1.6        | 11284b                   | 340b                       | 2945                      | 26.5c                       | 54               |
| bb                                  | 349                    | 7072                               | 81                            | -8                                         | -8  | 1.8                              | 11           | 2.3        | 4306                     | 702                        | 15020a                    | 15.6c                       | 63               |
| Computer Associates International   | 352                    | 6986                               | 42                            | 47                                         | 47  | 6.6                              | 18           | 0.5        | 2148b                    | 401b                       | 2349                      | 37.3c                       | 52               |
| se Manhattan                        | 357                    | 6848                               | 38                            | 23                                         | 23  | 1.1                              | 6            | 3.5        | NA                       | 466                        | 102103a                   | 17.4                        | 61               |
| P                                   | 359                    | 6792                               | 65                            | 6                                          | 6   | 3.3                              | 22           | 2.6        | 3451                     | 297                        | 3118                      | 14.8                        | 35               |
| Public Service Enterprise Group     | 361                    | 6771                               | 28                            | -18                                        | -18 | 1.3                              | 11           | 7.8        | 5706                     | 596                        | 16305                     | 12.1                        | 12               |
| ergy                                | 363                    | 6694                               | 29                            | -17                                        | -17 | 1.0                              | 11           | 6.2        | 6287                     | 595                        | 22877                     | 9.0                         | 12               |
| ocal                                | 366                    | 6667                               | 28                            | -12                                        | -12 | 2.5                              | 30           | 2.9        | 8344                     | 343                        | 9254                      | 8.4                         | 11               |
| minion Resources                    | 367                    | 6662                               | 40                            | -8                                         | -8  | 1.5                              | 12           | 6.4        | 4434                     | 517                        | 13350                     | 12.2                        | 12               |
| ining                               | 370                    | 6596                               | 33                            | -1                                         | -1  | 3.9                              | LOSS         | 2.1        | 4005                     | 15                         | 5232                      | NEG                         | 41               |
| inival                              | 371                    | 6595                               | 47                            | 37                                         | 37  | 4.1                              | 20           | 1.2        | 1557                     | 318                        | 3219                      | 20.4                        | 53               |
| erican Brands                       | 372                    | 6557                               | 33                            | -2                                         | -2  | 1.5                              | 12           | 6.1        | 13701                    | 668                        | 16339                     | 13.4                        | 43               |
| Agra                                | 373                    | 6550                               | 29                            | 14                                         | 14  | 3.2                              | 17           | 2.5        | 21519                    | 392                        | 9987                      | 18.6                        | 44               |
| Nabisco Holdings                    | 374                    | 6544                               | 6                             | 2                                          | 2   | 0.9                              | LOSS         | 0.0        | 15104                    | 3                          | 31295                     | NEG                         | 43               |
| Healthcare                          | 375                    | 6513                               | 40                            | 21                                         | 21  | 8.5                              | 20           | 1.7        | 2560                     | 300                        | 1344                      | 42.1                        | 52               |
| Consolidated Edison Co. of New York | 379                    | 6475                               | 28                            | -19                                        | -19 | 1.3                              | 10           | 7.2        | 6265                     | 659                        | 13483                     | 13.0                        | 12               |
| Witter, Discover                    | 380                    | 6461                               | 39                            | 14                                         | 14  | 3.1                              | 10           | 1.3        | NA                       | 604                        | 23820a                    | 32.1c                       | 62               |
| ckbuster Entertainment              | 382                    | 6382                               | 28                            | 49                                         | 49  | 3.3                              | 24           | 0.4        | 2227                     | 244                        | 3521                      | 13.8                        | 54               |
| ited                                | 383                    | 6381                               | 18                            | -27                                        | -27 | 2.8                              | 16           | 2.0        | 7245b                    | 391b                       | 3846                      | 17.3c                       | 54               |
| ersh & McLennan                     | 386                    | 6375                               | 87                            | -3                                         | -3  | 5.8                              | 18           | 3.3        | NA                       | 332                        | 3088a                     | 32.1c                       | 63               |
| corp                                | 391                    | 6272                               | 14                            | -42                                        | -42 | 1.1                              | 10           | 10.1       | 7821                     | 639                        | 21379                     | 10.5                        | 12               |
| o                                   | 393                    | 6254                               | 43                            | 24                                         | 24  | 9.1                              | 22           | 1.1        | 3296b                    | 258b                       | 1379                      | 40.5c                       | 54               |
| gen                                 | 394                    | 6249                               | 47                            | 31                                         | 31  | 5.3                              | 17           | 0.0        | 1374                     | 383                        | 1766                      | 31.2                        | 45               |
| minum Co. of America                | 395                    | 6241                               | 71                            | 5                                          | 5   | 1.7                              | 78           | 2.3        | 9056                     | 150                        | 11598                     | 2.2                         | 24               |
| ey Bowes                            | 396                    | 6189                               | 39                            | -8                                         | -8  | 3.3                              | 17           | 2.7        | 3543                     | 353                        | 6794                      | 19.3                        | 52               |
| Interstate Bancorp                  | 397                    | 6186                               | 80                            | 37                                         | 37  | 1.9                              | 11           | 3.8        | NA                       | 561                        | 51461                     | 18.2c                       | 61               |
| art                                 | 400                    | 6141                               | 15                            | 33                                         | -33 | 1.2                              | LOSS         | 6.4        | 34156b                   | -328                       | 17504                     | NEG                         | 54               |
| o Systems                           | 403                    | 6124                               | 25                            | -8                                         | -8  | 12.9                             | 23           | 0.0        | 649                      | 172                        | 595                       | 55.2                        | 33               |
| na Life & Casualty                  | 408                    | 6073                               | 54                            | 1                                          | 1   | 0.9                              | LOSS         | 5.1        | 10575                    | -588                       | 100040                    | NEG                         | 63               |
| Broadcasting                        | 410                    | 6043                               | 117                           | 20                                         | 20  | LOSS                             | LOSS         | 0.0        | 689                      | -61                        | 2910                      | NEG                         | 55               |
| O Energy                            | 411                    | 6036                               | 27                            | -8                                         | -8  | 1.4                              | 11           | 5.6        | 3988                     | 591                        | 15032                     | 12.7                        | 12               |
| Trust Banks                         | 412                    | 6032                               | 49                            | 13                                         | 13  | 2.3                              | 13           | 2.6        | NA                       | 474                        | 40728                     | 18.1c                       | 61               |
| Group                               | 413                    | 6018                               | 32                            | -15                                        | -15 | 1.5                              | 14           | 5.3        | 5347                     | 429                        | 12306a                    | 11.1c                       | 12               |
| ere                                 | 414                    | 5999                               | 70                            | 11                                         | 11  | 2.9                              | 11           | 2.9        | 6479                     | 329                        | 11352                     | 27.4                        | 38               |
| n. Wrigley Jr. (7)                  | 419                    | 5948                               | 51                            | 44                                         | 44  | 9.3                              | 29           | 1.6        | 1429                     | 175                        | 815                       | 32.7                        | 44               |
| idental Petroleum                   | 422                    | 5929                               | 19                            | 11                                         | 11  | 1.8                              | LOSS         | 5.2        | 8116                     | 74                         | 17123                     | NEG                         | 11               |
| erican General                      | 424                    | 5893                               | 27                            | -12                                        | -12 | 1.3                              | 10           | 4.3        | NA                       | 580                        | 39740a                    | 13.0c                       | 63               |
| odyear Tire & Rubber                | 428                    | 5851                               | 39                            | -3                                         | -3  | 2.5                              | 11           | 2.1        | 11643                    | 489                        | 8436                      | 23.0                        | 37               |
| cor                                 | 429                    | 5845                               | 67                            | 53                                         | 53  | 6.5                              | 43           | 0.3        | 2254                     | 124                        | 1829                      | 15.2                        | 25               |
| orgia-Pacific                       | 431                    | 5822                               | 65                            | -1                                         | -1  | 2.4                              | LOSS         | 2.5        | 12330                    | -18                        | 10545                     | NEG                         | 23               |
| Bankers Trust New York              | 439                    | 5700                               | 70                            | -2                                         | -2  | 1.3                              | 6            | 5.1        | NA                       | 1070                       | 92082                     | 22.0                        | 61               |
| chovia                              | 440                    | 5655                               | 33                            | -8                                         | -8  | 1.9                              | 11           | 3.6        | NA                       | 492                        | 36526                     | 16.5                        | 61               |
| yton Hudson                         | 442                    | 5613                               | 79                            | 8                                          | 8   | 2.3                              | 15           | 2.1        | 19233b                   | 375b                       | 10337                     | 14.7c                       | 54               |
| ohn                                 | 444                    | 5593                               | 32                            | 9                                          | 9   | 3.1                              | 15           | 4.6        | 3611                     | 402                        | 4816                      | 20.9                        | 45               |
| oman                                | 445                    | 5573                               | 51                            | 39                                         | 39  | 1.3                              | 6            | 1.3        | 8799                     | 864                        | 184835                    | 22.1                        | 62               |
| owning-Ferris Industries            | 448                    | 5557                               | 29                            | 7                                          | 7   | 3.3                              | 24           | 2.3        | 3495                     | 197                        | 4296                      | 13.5                        | 52               |
| vell                                | 451                    | 5533                               | 18                            | -37                                        | -37 | 5.5                              | 18           | 0.0        | 1123                     | 285                        | 1344                      | 30.3                        | 33               |
| ows                                 | 453                    | 5518                               | 89                            | -5                                         | -5  | 0.9                              | 11           | 1.1        | 13687                    | 594                        | 45850                     | 8.2                         | 71               |
| mentech                             | 454                    | 5512                               | 48                            | 17                                         | 17  | 4.9                              | 68           | 0.0        | 650                      | 59                         | 1469                      | 7.3                         | 45               |
| lington Resources                   | 463                    | 5414                               | 42                            | -17                                        | -17 | 2.1                              | 21           | 1.3        | 1249                     | 255                        | 4448                      | 9.8                         | 11               |
| nk of New York                      | 465                    | 5375                               | 30                            | 7                                          | 7   | 1.5                              | 9            | 3.7        | NA                       | 559                        | 45546                     | 15.5c                       | 61               |



# THE GLOBAL 1000

| COUNTRY<br>RANK |                                    | GLOBAL<br>1000<br>RANK | MARKET<br>VALUE<br>U.S.<br>\$ MIL. | PRICE<br>PER<br>SHARE<br>U.S. \$ | % CHANGE<br>FROM 1993<br>(U.S. \$) | (LOCAL) | PRICE,<br>BOOK<br>VALUE<br>RATIO | P/E<br>RATIO | YIELD<br>% | SALES<br>U.S.<br>\$ MIL. | PROFITS<br>U.S.<br>\$ MIL. | ASSETS<br>U.S.<br>\$ MIL. | RETURN<br>ON<br>EQUITY<br>% |
|-----------------|------------------------------------|------------------------|------------------------------------|----------------------------------|------------------------------------|---------|----------------------------------|--------------|------------|--------------------------|----------------------------|---------------------------|-----------------------------|
| 174             | American Electric Power            | 468                    | 5328                               | 29                               | -16                                | -16     | 13                               | 14           | 8.3        | 5269                     | 354                        | 15341                     | 9.0                         |
| 175             | Commonwealth Edison                | 470                    | 5306                               | 25                               | -10                                | -10     | 0.9                              | 249          | 6.4        | 5260                     | 103                        | 18020a                    | 0.4c                        |
| 176             | Fleet Financial Group              | 471                    | 5296                               | 39                               | 26                                 | 26      | 12                               | 3.6          |            | NA                       | 488                        | 47923                     | 13.8                        |
| 177             | First Data                         | 472                    | 5179                               | 47                               | 28                                 | 28      | 5.4                              | 29           | 0.3        | NA                       | 173                        | 4148                      | 18.7                        |
| 178             | UST                                | 480                    | 5170                               | 25                               | -16                                | -16     | 1.1                              | 15           | 4.4        | 1110                     | 369                        | 706                       | 75.7                        |
| 179             | Paramount Communications (7)       | 481                    | 5111                               | 42                               | 21                                 | 21      | 1.2                              | 30           | 0.0        | 4265                     | 270                        | 7054                      | 4.0                         |
| 180             | Synnex                             | 484                    | 5111                               | 23                               | 12                                 | 12      | 4.3                              | 14           | 4.5        | 2123                     | 288                        | 2961                      | 31.5                        |
| 181             | Freeport-McMoRan Copper & Gold (7) | 487                    | 5097                               | 25                               | -2                                 | -2      | 13.6                             | 118          | 2.4        | 926                      | 61                         | 2117                      | 11.6                        |
| 182             | Walgreen                           | 494                    | 4953                               | 41                               | -4                                 | -4      | 3.7                              | 20           | 1.7        | 8295                     | 245                        | 2535                      | 18.1                        |
| 183             | PacifiCorp                         | 499                    | 4953                               | 18                               | 1                                  | -1      | 1.1                              | 13           | 6.1        | 3412                     | 423                        | 11959                     | 12.1                        |
| 184             | Textron                            | 500                    | 4946                               | 56                               | 7                                  | 7       | 1.8                              | 13           | 2.5        | 9078                     | 379                        | 19658                     | 14.0                        |
| 185             | Cigna                              | 504                    | 4929                               | 69                               | 17                                 | 17      | 0.9                              | 11           | 4.4        | NA                       | 361                        | 69830a                    | 7.7c                        |
| 186             | USX-Marathon Group                 | 507                    | 4908                               | 17                               | -9                                 | -9      | 1.6                              | 71           | 4.0        | 11962                    | -6                         | 10806                     | 2.3                         |
| 187             | Duracell International             | 510                    | 4882                               | 42                               | 39                                 | 39      | 4.9                              | 26           | 2.1        | 1742                     | 171                        | 1998                      | 18.7                        |
| 188             | Burlington Northern                | 512                    | 4870                               | 56                               | 3                                  | 3       | 3.1                              | 18           | 2.2        | 4699                     | 296                        | 7045                      | 17.4                        |
| 189             | Reader's Digest Association        | 513                    | 4848                               | 42                               | -4                                 | -4      | 6.2                              | 18           | 3.4        | 2869                     | 258                        | 1872                      | 34.9                        |
| 190             | Alltel                             | 514                    | 4841                               | 26                               | 1                                  | 1       | 3.2                              | 19           | 3.4        | 2342                     | 262                        | 4270                      | 16.9                        |
| 191             | Marion Merrell Dow                 | 515                    | 4834                               | 18                               | 1                                  | 1       | 2.6                              | 13           | 5.7        | 2818                     | 362                        | 3183a                     | 19.7c                       |
| 192             | Air Products & Chemicals           | 516                    | 4817                               | 42                               | -1                                 | -1      | 2.3                              | 23           | 2.2        | 3228                     | 201                        | 4762                      | 9.8                         |
| 193             | Sysco                              | 517                    | 4786                               | 26                               | -3                                 | -3      | 4.2                              | 22           | 1.4        | 10022                    | 202                        | 2530                      | 18.8                        |
| 194             | NBD Bancorp                        | 518                    | 4781                               | 30                               | -4                                 | -4      | 1.5                              | 10           | 4.0        | NA                       | 482                        | 40776                     | 15.0                        |
| 195             | American Cyanamid                  | 519                    | 4776                               | 52                               | 4                                  | 4       | 3.4                              | LOSS         | 3.5        | 4277                     | -164                       | 6057                      | NEG                         |
| 196             | Medtronic                          | 521                    | 4756                               | 82                               | 19                                 | 19      | 5.7                              | 20           | 0.8        | 1391b                    | 232b                       | 1287                      | 27.8c                       |
| 197             | McDonnell Douglas                  | 522                    | 4723                               | 120                              | 82                                 | 82      | 1.4                              | 15           | 1.2        | 14487                    | 359                        | 12026                     | 9.2                         |
| 198             | Illinois Tool Works                | 539                    | 4611                               | 41                               | 12                                 | 12      | 3.7                              | 21           | 1.3        | 3159                     | 207                        | 2337                      | 17.2                        |
| 199             | Amerada Hess                       | 541                    | 4604                               | 50                               | -9                                 | -9      | 1.5                              | LOSS         | 1.2        | 5872                     | -298                       | 8642                      | NEG                         |
| 200             | Lowe's                             | 546                    | 4579                               | 31                               | 66                                 | 66      | 6.2                              | 30           | 0.5        | 4538b                    | 132b                       | 1609                      | 20.9c                       |
| 201             | Westinghouse Electric              | 547                    | 4578                               | 13                               | -15                                | -15     | 4.4                              | LOSS         | 1.5        | 8875                     | -175                       | 10553                     | NEG                         |
| 202             | First Chicago                      | 549                    | 4568                               | 53                               | 36                                 | 36      | 1.6                              | 6            | 3.8        | NA                       | 805                        | 52560                     | 26.7c                       |
| 203             | Rhone-Poulenc Rorer                | 550                    | 4561                               | 33                               | -36                                | -36     | 3.2                              | 12           | 3.4        | 4019                     | 421                        | 4050                      | 27.2                        |
| 204             | Hercules                           | 554                    | 4513                               | 106                              | 44                                 | 44      | 2.6                              | 21           | 2.1        | 2773                     | 208                        | 3228a                     | 12.8c                       |
| 205             | Barnett Banks                      | 556                    | 4493                               | 46                               | -1                                 | -1      | 1.7                              | 11           | 3.6        | NA                       | 421                        | 38330                     | 15.6                        |
| 206             | Quaker Oats                        | 557                    | 4491                               | 67                               | -9                                 | -9      | 8.5                              | 16           | 3.2        | 573                      | 287                        | 2816                      | 54.5                        |
| 207             | Nike                               | 558                    | 4491                               | 59                               | -19                                | -19     | 2.7                              | 15           | 1.4        | 3931                     | 365                        | 2188                      | 18.6                        |
| 208             | H&R Block                          | 559                    | 4488                               | 43                               | 23                                 | 23      | 7.0                              | 28           | 2.6        | 525                      | 181                        | 1006                      | 24.5                        |
| 209             | Rubbermaid                         | 560                    | 4467                               | 28                               | -12                                | -12     | 4.5                              | 21           | 1.6        | 1960                     | 211                        | 1327a                     | 21.6c                       |
| 210             | Arco Chemical                      | 561                    | 4464                               | 47                               | 0                                  | 0       | 2.8                              | 22           | 5.4        | 3192                     | 214                        | 3502                      | 13.2                        |
| 211             | Mattel                             | 562                    | 4457                               | 26                               | 37                                 | 37      | 6.0                              | 33           | 0.9        | 2704                     | 136                        | 1260a                     | 18.3c                       |
| 212             | Morgan Stanley Group               | 563                    | 4450                               | 60                               | -10                                | -10     | 1.2                              | 7            | 2.0        | NA                       | 786b                       | 97242b                    | 17.3                        |
| 213             | National City                      | 564                    | 4446                               | 28                               | 17                                 | 17      | 1.7                              | 11           | 4.1        | NA                       | 404                        | 31068                     | 15.3                        |
| 214             | First Bank System                  | 568                    | 4380                               | 38                               | 29                                 | 29      | 2.1                              | 15           | 3.1        | NA                       | 298                        | 26385                     | 14.5                        |
| 215             | Genuine Parts                      | 574                    | 4334                               | 35                               | -1                                 | -1      | 3.0                              | 16           | 3.3        | 4384                     | 259                        | 1871                      | 18.4                        |
| 216             | International Flavors & Fragrances | 575                    | 4334                               | 39                               | -1                                 | -1      | 4.8                              | 21           | 2.8        | 1189                     | 202                        | 1225                      | 22.9                        |
| 217             | TRW                                | 581                    | 4279                               | 67                               | -3                                 | -3      | 2.8                              | 19           | 2.8        | 7948                     | 220                        | 5336                      | 14.8                        |
| 218             | Melville                           | 583                    | 4266                               | 41                               | -13                                | -13     | 2.2                              | 14           | 3.7        | 10435                    | 332                        | 4272                      | 16.6                        |
| 219             | Newmont Gold                       | 585                    | 4247                               | 41                               | 10                                 | 10      | 4.6                              | 37           | 1.2        | 602                      | 113                        | 1022                      | 12.5                        |
| 220             | Avon Products                      | 586                    | 4245                               | 59                               | 6                                  | 6       | 13.5                             | 17           | 3.1        | 4008                     | 250                        | 1958                      | 81.1                        |
| 221             | Federal Express                    | 587                    | 4241                               | 77                               | 56                                 | 56      | 2.5                              | 24           | 0.0        | 7808                     | 110                        | 5793                      | 10.6                        |
| 222             | R. R. Donnelley & Sons             | 588                    | 4239                               | 28                               | -8                                 | -8      | 2.3                              | 23           | 2.0        | 4388                     | 179                        | 3654                      | 10.0                        |
| 223             | Houston Industries                 | 589                    | 4225                               | 32                               | -1                                 | -1      | 1.3                              | 10           | 9.3        | 4324                     | 416                        | 12230                     | 13.1                        |
| 224             | Santa Fe Pacific                   | 591                    | 4223                               | 23                               | 35                                 | 35      | 3.3                              | 15           | 0.4        | 2726                     | 339                        | 5937                      | 21.8                        |
| 225             | Masco                              | 592                    | 4212                               | 28                               | -13                                | -13     | 2.2                              | 18           | 2.5        | 3887                     | 221                        | 3987a                     | 12.2c                       |
| 226             | AMR                                | 594                    | 4199                               | 55                               | -22                                | -22     | 1.3                              | LOSS         | 0.0        | 1581c                    | -96                        | 19326                     | NEG                         |
| 227             | Fluor                              | 595                    | 4199                               | 51                               | 28                                 | 28      | 4.0                              | 24           | 1.0        | 7850                     | 167                        | 2589                      | 16.7                        |
| 228             | Martin Marietta                    | 599                    | 4173                               | 44                               | 16                                 | 16      | 2.2                              | 10           | 2.1        | 9436                     | 450                        | 7745                      | 21.8                        |
| 229             | Conrail                            | 600                    | 4173                               | 55                               | 2                                  | 2       | 1.5                              | 31           | 2.4        | 3453                     | 234                        | 7315a                     | 4.9c                        |
| 230             | Central & South West               | 601                    | 4169                               | 22                               | -30                                | -30     | 1.4                              | 13           | 7.7        | 3688                     | 281                        | 10623                     | 11.1                        |
| 231             | Cooper Industries                  | 603                    | 4169                               | 36                               | -27                                | -27     | 1.4                              | 14           | 3.6        | 6274                     | 367                        | 7148                      | 10.1                        |
| 232             | Honeywell                          | 604                    | 4128                               | 31                               | -17                                | -17     | 2.3                              | 13           | 3.1        | 5963                     | 322                        | 4598                      | 17.4                        |
| 233             | Viacom                             | 605                    | 4127                               | 29                               | -36                                | -36     | 4.6                              | 22           | 0.0        | 2005                     | 169                        | 4317a                     | 20.7c                       |
| 234             | Times Mirror                       | 607                    | 4120                               | 32                               | 5                                  | 5       | 2.2                              | 38           | 3.3        | 3714                     | 77                         | 4606                      | 5.7                         |
| 235             | Rohm & Haas                        | 608                    | 4118                               | 61                               | 6                                  | 6       | 3.2                              | 33           | 2.3        | 3269                     | 126                        | 3524                      | 9.7                         |
| 236             | Eaton                              | 610                    | 4114                               | 55                               | 24                                 | 24      | 3.5                              | 20           | 2.2        | 4401                     | 214                        | 3268                      | 18.2                        |
| 237             | CNA Financial                      | 614                    | 4094                               | 66                               | 27                                 | 27      | 0.8                              | 7            | 0.0        | 8689                     | 593                        | 41913                     | 11.2                        |
| 238             | CBS                                | 619                    | 4033                               | 9                                | 9                                  | 9       | 3.6                              | 13           | 0.8        | 3510                     | 326                        | 3419                      | 27.7                        |
| 239             | Transamerica                       | 620                    | 4033                               | 53                               | 8                                  | 8       | 1.4                              | 9            | 3.7        | NA                       | 450                        | 36050                     | 14.6                        |
| 240             | Lockheed                           | 624                    | 4005                               | 64                               | 5                                  | 5       | 1.6                              | 9            | 3.6        | 13071                    | 422                        | 8961                      | 17.8                        |
| 241             | Southwest Airlines                 | 627                    | 3979                               | 28                               | 3                                  | 3       | 3.8                              | 24           | 0.1        | 2297                     | 154                        | 2576                      | 15.7                        |
| 242             | Morton International               | 628                    | 3976                               | 82                               | 8                                  | 8       | 3.3                              | 23           | 1.4        | 2310                     | 127                        | 2239                      | 14.4                        |
| 243             | Eastman Chemical                   | 629                    | 3975                               | 48                               | NA                                 | NA      | 3.7                              | 20           | 3.3        | 3903                     | 267                        | 4341                      | 18.9                        |
| 244             | Dresser Industries                 | 632                    | 3975                               | 23                               | 2                                  | 2       | 3.3                              | 9            | 3.0        | 4216                     | 174                        | 3642                      | 36.2                        |
| 245             | AutoZone (7)                       | 636                    | 3947                               | 27                               | 15                                 | 15      | 8.8                              | 38           | 0.0        | 1217                     | 87                         | 697                       | 22.9                        |
| 246             | Tribune                            | 637                    | 3935                               | 59                               | 12                                 | 12      | 5.2                              | 22           | 1.8        | 1953                     | 189                        | 2536                      | 23.9                        |
| 247             | Turner Broadcasting System         | 638                    | 3932                               | 13                               | -13                                | -13     | 6.8                              | 15           | 0.4        | 1422                     | 72                         | 3245                      | 40.7                        |
| 248             | Great Lakes Chemical               | 639                    | 3925                               | 55                               | -24                                | -24     | 3.7                              | 14           | 0.7        | 1792                     | 273                        | 1732a                     | 26.2c                       |
| 249             | Whirlpool                          | 640                    | 3918                               | 54                               | -1                                 | -1      | 2.4                              | 14           | 2.3        | 7368                     | 231                        | 6047                      | 17.0                        |

# THE GLOBAL 1000

|                          | GLOBAL<br>1000<br>RANK | MARKET<br>VALUE<br>U.S.<br>\$ MIL. | PRICE<br>PER SHARE<br>U.S. \$ | % CHANGE<br>FROM 1993<br>(U.S. \$) |     | PRICE/<br>BOOK<br>VALUE<br>RATIO | P/E<br>RATIO | YIELD<br>% | SALES<br>U.S.<br>\$ MIL. | PROFITS<br>U.S.<br>\$ MIL. | ASSETS<br>U.S.<br>\$ MIL. | RETURN<br>ON<br>EQUITY<br>% | INDUSTRY<br>CODE |
|--------------------------|------------------------|------------------------------------|-------------------------------|------------------------------------|-----|----------------------------------|--------------|------------|--------------------------|----------------------------|---------------------------|-----------------------------|------------------|
| A                        | 641                    | 3918                               | 26                            | 62                                 | 62  | 5.1                              | 18           | 2.7        | NA                       | 208                        | 7320                      | 27.8                        | 62               |
| ina Power & Light        | 642                    | 3918                               | 24                            | -22                                | -22 | 1.5                              | 12           | 7.0        | 2895                     | 346                        | 8194                      | 12.8                        | 12               |
| s Dodge                  | 643                    | 3914                               | 56                            | 20                                 | 20  | 1.9                              | 22           | 3.0        | 2596                     | 188                        | 3721                      | 8.8                         | 24               |
| Grace                    | 648                    | 3902                               | 42                            | 4                                  | 4   | 2.6                              | 27           | 3.4        | 4408                     | 134                        | 6109                      | 9.4                         | 22               |
| in National              | 651                    | 3889                               | 41                            | 6                                  | 6   | 1.0                              | 9            | 4.0        | 5357                     | 415                        | 48380                     | 12.1                        | 63               |
| us                       | 653                    | 3886                               | 38                            | 23                                 | 23  | 7.3                              | 36           | 0.0        | 1252                     | 92                         | 1793                      | 20.0                        | 53               |
| n Carbide                | 658                    | 3873                               | 27                            | 42                                 | 42  | 2.9                              | 24           | 2.8        | 4640                     | 165                        | 4941a                     | 11.9c                       | 22               |
| Fidelity Bancorporation  | 666                    | 3801                               | 46                            | 2                                  | 2   | 1.7                              | 10           | 3.7        | NA                       | 399                        | 31480a                    | 17.6c                       | 61               |
| ir Edison                | 669                    | 3786                               | 26                            | -25                                | -25 | 1.2                              | 8            | 8.0        | 3555                     | 522                        | 10446a                    | 15.1c                       | 12               |
| ney Foods                | 672                    | 3767                               | 43                            | -19                                | -19 | 2.7                              | 16           | 2.8        | 3488                     | 257                        | 2855                      | 17.1                        | 44               |
| iana Pacific             | 677                    | 3732                               | 34                            | -2                                 | -2  | 2.4                              | 15           | 1.5        | 2511                     | 254                        | 2466                      | 16.1                        | 23               |
| n Bank                   | 681                    | 3713                               | 59                            | 7                                  | 7   | 1.4                              | 10           | 3.8        | NA                       | 361                        | 36139                     | 14.2                        | 61               |
| al Instrument            | 684                    | 3701                               | 52                            | -1                                 | -1  | 2.4                              | 15           | 1.9        | 2283                     | 286                        | 4831                      | 16.0                        | 63               |
| oll-Rand                 | 686                    | 3689                               | 61                            | 57                                 | 57  | 12.4                             | 29           | 0.0        | 1393                     | 90                         | 1727a                     | 43.4c                       | 35               |
| Jones                    | 688                    | 3684                               | 35                            | 4                                  | 4   | 2.7                              | 21           | 2.0        | 4021                     | 164                        | 3375                      | 12.7                        | 38               |
|                          | 692                    | 3659                               | 36                            | 22                                 | 22  | 2.5                              | 23           | 2.3        | 1932                     | 148                        | 2372a                     | 11.1c                       | 51               |
| strom                    | 695                    | 3621                               | 44                            | 47                                 | 47  | 3.1                              | 23           | 0.9        | 3590b                    | 140b                       | 2177b                     | 13.8                        | 54               |
| erica                    | 699                    | 3588                               | 30                            | 7                                  | 7   | 1.7                              | 10           | 4.3        | NA                       | 341                        | 30295                     | 17.0c                       | 61               |
| ast                      | 702                    | 3578                               | 18                            | 25                                 | 25  | LOSS                             | LOSS         | 0.5        | 1338                     | -99                        | 4272a                     | NEGc                        | 51               |
| ell                      | 704                    | 3575                               | 45                            | 21                                 | 21  | 3.7                              | 21           | 1.8        | 1645                     | 165                        | 1953                      | 17.3                        | 41               |
| of Boston                | 706                    | 3573                               | 28                            | 22                                 | 22  | 1.3                              | 10           | 3.1        | NA                       | 299                        | 32350a                    | 13.8c                       | 61               |
| ed Materials             | 707                    | 3572                               | 44                            | 69                                 | 69  | 5.9                              | 22           | 0.0        | 1080                     | 100                        | 1120                      | 26.0                        | 35               |
| M                        | 711                    | 3562                               | 47                            | -13                                | -13 | 1.7                              | 12           | 2.0        | 2474                     | 312                        | 12437                     | 14.5                        | 63               |
| liott International      | 712                    | 3560                               | 28                            | 35                                 | 35  | 5.0                              | 22           | 1.0        | 7430                     | 159                        | 2652a                     | 22.8c                       | 53               |
| ican Stores              | 714                    | 3548                               | 25                            | 16                                 | 16  | 2.1                              | 13           | 1.9        | 18763b                   | 262b                       | 6545                      | 15.8c                       | 54               |
| on Purina Group          | 715                    | 3545                               | 34                            | -11                                | -11 | 5.4                              | 11           | 3.5        | 5915                     | 284                        | 5151a                     | 47.6c                       | 44               |
| Paper                    | 719                    | 3535                               | 48                            | 32                                 | 32  | 1.7                              | 30           | 1.7        | 4749                     | 118                        | 6625                      | 5.9c                        | 45               |
| e Depot                  | 724                    | 3519                               | 37                            | 51                                 | 51  | 8.7                              | 50           | 0.0        | 2579                     | 63                         | 848a                      | 17.5c                       | 54               |
| n Oil & Gas (7)          | 727                    | 3516                               | 22                            | 4                                  | 4   | 3.7                              | 25           | 0.5        | 568                      | 138                        | 1811                      | 14.5                        | 11               |
| er Products              | 728                    | 3510                               | 51                            | 80                                 | 80  | 9.9                              | 31           | 1.7        | 1172b                    | 114b                       | 954                       | 32.0c                       | 44               |
| mont Mining              | 729                    | 3509                               | 41                            | -2                                 | -2  | 6.8                              | 40           | 1.5        | 634                      | 133                        | 1215a                     | 16.9c                       | 81               |
| olidated Natural Gas     | 730                    | 3508                               | 38                            | -27                                | -27 | 1.6                              | 18           | 5.1        | 3184                     | 188                        | 5410                      | 8.9                         | 12               |
| d Department Stores      | 734                    | 3494                               | 31                            | -24                                | -24 | 1.9                              | 14           | 0.3        | 5131b                    | 240b                       | 4107                      | 13.2c                       | 54               |
| men's Bancshares         | 736                    | 3488                               | 34                            | 16                                 | 16  | 1.6                              | 11           | 3.7        | NA                       | 317                        | 26650                     | 15.2                        | 61               |
| elaborator Technologies  | 741                    | 3470                               | 18                            | -6                                 | -6  | 2.7                              | 21           | 2.2        | 1142                     | 163                        | 3090                      | 13.1                        | 71               |
| a                        | 742                    | 3469                               | 55                            | -3                                 | -3  | 1.3                              | 8            | 3.6        | 2236                     | 426                        | 14807                     | 14.8                        | 63               |
| urton                    | 743                    | 3467                               | 30                            | 25                                 | -25 | 1.7                              | 17           | 3.3        | 6351                     | 205                        | 4736a                     | 10.1c                       | 36               |
| C                        | 744                    | 3466                               | 34                            | 6                                  | 6   | 2.5                              | 14           | 1.4        | 4225                     | 244                        | 15443                     | 17.6                        | 63               |
| e Computer               | 745                    | 3466                               | 29                            | -48                                | -48 | 1.7                              | 46           | 1.6        | 7977                     | 286                        | 5172                      | 3.7c                        | 33               |
| n Electric               | 751                    | 3434                               | 34                            | -17                                | -17 | 1.6                              | 12           | 7.1        | 2066                     | 297                        | 6596                      | 12.6                        | 12               |
| ern Pacific Raii         | 752                    | 3427                               | 22                            | NA                                 | NA  | 9.2                              | LOSS         | 0.0        | 2919                     | -45                        | 3434                      | NEG                         | 57               |
| Financial Management (7) | 755                    | 3411                               | 56                            | 37                                 | 37  | 2.7                              | 25           | 0.2        | 1660                     | 128                        | 1626                      | 10.6                        | 62               |
| 2. Grainger              | 756                    | 3411                               | 65                            | 2                                  | 2   | 3.7                              | 22           | 1.2        | 2628                     | 148                        | 1311a                     | 17.0c                       | 34               |
| sson                     | 757                    | 3398                               | 83                            | 91                                 | 91  | 6.9                              | 23           | 2.0        | 12428b                   | 157b                       | 2800                      | 30.7c                       | 45               |
| -Dixie Stores            | 758                    | 3394                               | 45                            | -22                                | -22 | 3.4                              | 14           | 3.2        | 10832                    | 236                        | 2063                      | 23.8                        | 54               |
| on Technology            | 761                    | 3383                               | 34                            | 184                                | 184 | 5.3                              | 14           | 0.1        | 828                      | 164                        | 966                       | 37.9                        | 35               |
| sylvania Power & Light   | 766                    | 3366                               | 22                            | -26                                | -26 | 1.4                              | 11           | 7.5        | 2727                     | 348                        | 9454                      | 13.0                        | 12               |
|                          | 767                    | 3364                               | 33                            | -5                                 | -5  | 1.5                              | 11           | 3.9        | 1823                     | 324                        | 16279                     | 13.0                        | 63               |
| Third Bancorp (7)        | 772                    | 3345                               | 54                            | 2                                  | 2   | 2.8                              | 16           | 2.0        | 947                      | 19a                        | 11966                     | 17.3                        | 61               |
| more Gas & Electric      | 776                    | 3322                               | 23                            | -10                                | -10 | 1.3                              | 12           | 6.7        | 2669                     | 310                        | 7987                      | 10.9                        | 12               |
| ae                       | 777                    | 3320                               | 40                            | -12                                | -12 | 3.1                              | 8            | 3.5        | NA                       | 567                        | 46509                     | 39.3                        | 62               |
| n Camp                   | 778                    | 3300                               | 47                            | 7                                  | 7   | 1.8                              | 68           | 3.3        | 3120                     | 50                         | 4685                      | 2.7                         | 23               |
| ral Public Utilities     | 783                    | 3291                               | 29                            | -6                                 | -6  | 1.3                              | 10           | 6.3        | 3596                     | 296                        | 8869                      | 13.2                        | 12               |
| aul                      | 784                    | 3288                               | 78                            | -4                                 | -4  | 1.1                              | 8            | 3.9        | 3178                     | 428                        | 17149                     | 13.1                        | 63               |
| ana                      | 785                    | 3287                               | 21                            | 75                                 | 75  | 3.7                              | 32           | 0.0        | 3137                     | 89                         | 1731                      | 11.7                        | 52               |
| Hughes Electronics (7)   | 786                    | 3285                               | 36                            | 17                                 | 17  | 0.4                              | 14           | 2.2        | 13450                    | 922                        | 14117                     | 3.2                         | 31               |
| aw-Hill                  | 789                    | 3261                               | 66                            | 14                                 | 14  | 4.0                              | 19           | 3.5        | 2195                     | 172                        | 3084                      | 20.9                        | 51               |
| International            | 791                    | 3255                               | 29                            | 15                                 | 15  | 21.0                             | 35           | 0.0        | 879b                     | 87b                        | 474                       | 59.7c                       | 52               |
| ehold International      | 792                    | 3240                               | 34                            | -2                                 | -2  | 1.6                              | 11           | 3.5        | NA                       | 299                        | 32962                     | 13.9                        | 62               |
| el Communications        | 794                    | 3226                               | 38                            | 50                                 | 50  | 9.3                              | LOSS         | 0.0        | 53                       | -10                        | 334                       | NEG                         | 55               |
| able                     | 795                    | 3222                               | 23                            | 10                                 | 10  | 1.4                              | 15           | 0.9        | 599                      | 235                        | 78869a                    | 9.1c                        | 63               |
| Standard                 | 798                    | 3216                               | 58                            | 18                                 | 18  | 3.3                              | 305          | 1.7        | 6445                     | 8                          | 3349                      | 1.1                         | 52               |
| yn Cork & Seal           | 799                    | 3208                               | 36                            | -5                                 | -5  | 2.6                              | 17           | 0.0        | 4163                     | 181                        | 4217                      | 14.8                        | 26               |
| n Foods (7)              | 805                    | 3183                               | 22                            | -11                                | -11 | 2.2                              | 18           | 0.4        | 4707                     | 180                        | 3254                      | 12.6                        | 44               |
|                          | 806                    | 3168                               | 49                            | -2                                 | -2  | 2.0                              | 13           | 2.6        | 4320                     | 246                        | 2877                      | 15.8                        | 47               |
| States Financial         | 812                    | 3158                               | 27                            | 1                                  | 1   | 1.6                              | 9            | 4.5        | NA                       | 328                        | 23665                     | 17.6                        | 61               |
| arko Petroleum           | 815                    | 3152                               | 54                            | 30                                 | 30  | 3.6                              | 76           | 0.6        | 476                      | 40                         | 2023                      | 4.8                         | 1                |
|                          | 823                    | 3121                               | 17                            | 96                                 | 96  | 16.5                             | 23           | 0.0        | 783                      | 127                        | 321a                      | 72.5c                       | 35               |
|                          | 826                    | 3105                               | 29                            | 13                                 | 13  | 1.6                              | 11           | 6.2        | 9417                     | 283                        | 5900                      | 14.2                        | 11               |
| nt-Ridder                | 828                    | 3092                               | 56                            | 1                                  | 1   | 2.5                              | 20           | 2.5        | 2451                     | 148                        | 2431                      | 12.4                        | 51               |
| mark                     | 830                    | 3090                               | 42                            | -21                                | -21 | 2.2                              | 11           | 2.7        | 1493                     | 280                        | 7646                      | 19.6                        | 63               |
| Street Boston            | 836                    | 3078                               | 41                            | 31                                 | 31  | 2.8                              | 16           | 1.4        | NA                       | 180                        | 18720                     | 16.9                        | 61               |

Footnotes on page 60



# THE GLOBAL 1000

| COUNTRY RANK |                               | GLOBAL 1000 RANK | MARKET VALUE U.S. \$ MIL. | PRICE PER SHARE U.S. \$ | % CHANGE FROM 1993 (U.S. \$) | PRICE/BOOK VALUE RATIO | P/E RATIO | YIELD % | SALES U.S. \$ MIL. | PROFITS U.S. \$ MIL. | ASSETS U.S. \$ MIL. | RETURN ON EQUITY % |    |
|--------------|-------------------------------|------------------|---------------------------|-------------------------|------------------------------|------------------------|-----------|---------|--------------------|----------------------|---------------------|--------------------|----|
| 322          | Silicon Graphics              | 839              | 3065                      | 23                      | 27                           | 27                     | 5.0       | 27      | 0.0                | 1091                 | 88                  | 946                | 18 |
| 323          | Pioneer Hi-Bred International | 840              | 3065                      | 35                      | 35                           | 35                     | 3.7       | 19      | 1.6                | 1343                 | 137                 | 1221               | 19 |
| 324          | WellPoint Health Networks (7) | 842              | 3060                      | 31                      | 7                            | 7                      | 2.4       | 15      | 0.0                | 2449                 | 187                 | 1927               | 15 |
| 325          | Northeast Utilities           | 845              | 3053                      | 23                      | 15                           | -15                    | 1.4       | 14      | 7.7                | 3629                 | 198                 | 10668              | 9  |
| 326          | Champion International        | 851              | 3035                      | 33                      | -2                           | -2                     | 1.0       | LOSS    | 0.6                | 5069                 | -134                | 9143               | NE |
| 327          | Franklin Resources (7)        | 852              | 3035                      | 37                      | 3                            | -3                     | 3.7       | 14      | 0.9                | 641                  | 176                 | 1582               | 26 |
| 328          | Dover                         | 853              | 3033                      | 53                      | 15                           | 15                     | 3.8       | 18      | 1.7                | 2483                 | 158                 | 1426a              | 20 |
| 329          | Snapple Beverage              | 866              | 2987                      | 25                      | 70                           | 70                     | 18.3      | 40      | 0.0                | 516                  | 68                  | 239                | 46 |
| 330          | Digital Equipment             | 871              | 2976                      | 22                      | -50                          | -50                    | 0.6       | LOSS    | 0.0                | 14371                | -251                | 10950              | NE |
| 331          | Provident                     | 874              | 2963                      | 31                      | -16                          | -16                    | 1.5       | 9       | 2.6                | NA                   | 323                 | 20590a             | 17 |
| 332          | Loral                         | 875              | 2958                      | 36                      | 35                           | 35                     | 2.5       | 13      | 1.6                | 4009b                | 228b                | 3228               | 18 |
| 333          | Bausch & Lomb                 | 878              | 2942                      | 50                      | -5                           | -5                     | 3.2       | 19      | 2.0                | 1872                 | 157                 | 2512               | 17 |
| 334          | Coastal                       | 879              | 2938                      | 28                      | 5                            | 5                      | 1.3       | 16      | 1.4                | 10136                | 118                 | 10227              | 8  |
| 335          | UAL                           | 888              | 2905                      | 120                     | -11                          | -11                    | 2.5       | LOSS    | 0.0                | 14511                | -31                 | 12840              | NE |
| 336          | Hasbro                        | 889              | 2903                      | 33                      | -8                           | -8                     | 2.6       | 15      | 0.8                | 2747                 | 200                 | 2083a              | 17 |
| 337          | Williams                      | 890              | 2899                      | 28                      | 15                           | 15                     | 1.8       | 19      | 3.0                | 2438                 | 232                 | 5020               | 9  |
| 338          | Price/Costco                  | 892              | 2876                      | 13                      | -4                           | -4                     | 1.6       | 13      | 0.0                | 15155                | 223                 | 3940               | 12 |
| 339          | Harcourt General              | 895              | 2860                      | 37                      | 17                           | 17                     | 3.1       | 18      | 1.6                | 3656                 | 165                 | 5977               | 17 |
| 340          | Becton, Dickinson             | 900              | 2849                      | 38                      | -1                           | -1                     | 2.0       | 14      | 1.9                | 2465                 | 213                 | 3088               | 14 |
| 341          | Roadway Services              | 901              | 2838                      | 71                      | 32                           | 32                     | 2.7       | 24      | 2.0                | 4156                 | 119                 | 1846               | 10 |
| 342          | Cabletron Systems             | 904              | 2821                      | 99                      | -1                           | -1                     | 9.7       | 24      | 0.0                | 598b                 | 119b                | 343                | 41 |
| 343          | Clorox                        | 907              | 2818                      | 51                      | 4                            | 4                      | 3.2       | 16      | 3.5                | 1634                 | 168                 | 1649               | 20 |
| 344          | Baker Hughes                  | 915              | 2791                      | 20                      | -29                          | -29                    | 1.7       | 35      | 2.3                | 2702                 | 59                  | 3143               | 5  |
| 345          | Sherwin-Williams              | 917              | 2789                      | 32                      | 2                            | 2                      | 3.1       | 17      | 1.8                | 2949                 | 165                 | 1915               | 18 |
| 346          | U. S. Bancorp (7)             | 918              | 2785                      | 28                      | 14                           | 14                     | 1.7       | 18      | 3.2                | 1818                 | 258                 | 21416              | 9  |
| 347          | International Game Technology | 920              | 2778                      | 22                      | -40                          | -40                    | 7.3       | 22      | 0.5                | 478                  | 106                 | 647                | 33 |
| 348          | Federated Department Stores   | 923              | 2763                      | 22                      | 5                            | -5                     | 1.3       | 13      | 0.0                | 7080                 | 133                 | 7020               | 10 |
| 349          | Temple Inland                 | 924              | 2756                      | 50                      | 10                           | 10                     | 1.6       | 45      | 2.0                | 2101                 | 67                  | 11959              | 3  |
| 350          | Washington Post               | 928              | 2747                      | 233                     | -4                           | -4                     | 2.8       | 18      | 1.8                | 1498                 | 154                 | 1568a              | 15 |
| 351          | Reynolds Metals               | 929              | 2746                      | 46                      | 1                            | 1                      | 1.7       | LOSS    | 2.2                | 5294                 | -322                | 6709               | NE |
| 352          | Praxair                       | 930              | 2745                      | 20                      | 30                           | 30                     | 4.3       | 18      | 1.4                | 2438                 | 143                 | 3255               | 23 |
| 353          | Huntington Bancshares (7)     | 932              | 2741                      | 26                      | 11                           | 11                     | 2.0       | 11      | 3.0                | 1477                 | 237                 | 17619              | 18 |
| 354          | Northern States Power         | 933              | 2734                      | 41                      | -7                           | -7                     | 1.5       | 14      | 6.3                | 2404                 | 212                 | 5588               | 11 |
| 355          | Lotus Development             | 934              | 2728                      | 60                      | 75                           | 75                     | 5.1       | 43      | 0.0                | 981                  | 56                  | 905                | 11 |
| 356          | New York Times                | 936              | 2725                      | 26                      | -12                          | -12                    | 1.7       | 255     | 2.2                | 2020                 | 6                   | 3215               | 0  |
| 357          | Reebok International          | 937              | 2722                      | 32                      | 14                           | 14                     | 3.4       | 12      | 1.0                | 2894                 | 230                 | 1345a              | 28 |
| 358          | Food Lion (7)                 | 938              | 2721                      | 6                       | -12                          | -12                    | 2.9       | 28      | 1.6                | 7610                 | 4                   | 2504               | 10 |
| 359          | National Medical Enterprises  | 939              | 2717                      | 16                      | 72                           | 72                     | 1.6       | 16      | 0.0                | 3762                 | 160                 | 4173               | 9  |
| 360          | Citizens Utilities (7)        | 940              | 2703                      | 15                      | -18                          | -18                    | 2.7       | 20      | 0.0                | 619                  | 126                 | 2580               | 13 |
| 361          | Homestake Mining              | 942              | 2698                      | 20                      | 4                            | 4                      | 5.2       | 38      | 1.3                | 722                  | 52                  | 1121               | 13 |
| 362          | Liberty Media (7)             | 947              | 2683                      | 21                      | -12                          | -12                    | 6.8       | LOSS    | 0.0                | 1153                 | 7                   | 1437               | NE |
| 363          | Ohio Edison                   | 950              | 2670                      | 18                      | -29                          | -29                    | 1.2       | 10      | 8.6                | 2370                 | 25                  | 8918               | 12 |
| 364          | Wisconsin Energy              | 953              | 2659                      | 25                      | -6                           | -6                     | 1.6       | 18      | 5.4                | 1644                 | 188                 | 4223               | 9  |
| 365          | General Dynamics              | 955              | 2651                      | 42                      | 25                           | 25                     | 2.3       | 10      | 3.3                | 3187                 | 270                 | 2635               | 21 |
| 366          | Mead                          | 956              | 2649                      | 45                      | -4                           | -4                     | 1.7       | 21      | 2.2                | 4790                 | 124                 | 4165               | 7  |
| 367          | Cyprus Amax Minerals          | 957              | 2648                      | 29                      | 18                           | 18                     | 1.1       | LOSS    | 2.8                | 2808a                | -406a               | 5707               | NA |
| 368          | Engelhard                     | 958              | 2648                      | 27                      | 12                           | 12                     | 4.1       | 23      | 1.6                | 2151                 | 108                 | 1280a              | 17 |
| 369          | Hilton Hotels                 | 959              | 2647                      | 56                      | 12                           | 12                     | 2.6       | 26      | 2.2                | 1394                 | 103                 | 2660a              | 10 |
| 370          | Cincinnati Financial (7)      | 975              | 2599                      | 52                      | 9                            | 9                      | 1.4       | 14      | 2.5                | 1442                 | 202                 | 4602               | 9  |
| 371          | Sybase                        | 976              | 2592                      | 54                      | 57                           | 57                     | 20.5      | 56      | 0.0                | 427                  | 44                  | 333                | 30 |
| 372          | Shaw Industries               | 978              | 2585                      | 18                      | 10                           | 10                     | 3.8       | 21      | 1.2                | 2321                 | 101                 | 1280               | 16 |
| 373          | Kroger                        | 979              | 2579                      | 24                      | 34                           | 34                     | LOSS      | 13      | 0.0                | 2238a                | 171                 | 4480               | NA |
| 374          | USX-U. S. Steel Group         | 981              | 2573                      | 34                      | 21                           | -21                    | 4.1       | LOSS    | 2.9                | 5612                 | -164                | 6616               | NE |
| 375          | Freeport-McMoRan              | 982              | 2571                      | 18                      | 9                            | -9                     | LOSS      | LOSS    | 6.8                | 1611                 | -83                 | 3714               | NE |
| 376          | Hillenbrand Industries (7)    | 983              | 2568                      | 36                      | -16                          | -16                    | 3.8       | 19      | 1.6                | 1448                 | 132                 | 2271               | 20 |
| 377          | Golden West Financial         | 991              | 2525                      | 40                      | -10                          | -10                    | 1.5       | 9       | 0.8                | NA                   | 274                 | 25890a             | 15 |
| 378          | Dana                          | 992              | 2524                      | 52                      | 1                            | 1                      | 3.3       | 16      | 3.3                | 5460                 | 129                 | 4343a              | 20 |
| 379          | Republic New York             | 999              | 2510                      | 48                      | -5                           | -5                     | 1.1       | 9       | 2.8                | NA                   | 301                 | 39494              | 13 |

**KEY TO INDUSTRY CODES** Left-hand digit represents broad economic sector as defined by Morgan Stanley Capital International. Right-hand digit is industry classification code within each economic sector.

## 1. ENERGY

- 11 Energy sources
- 12 Utilities-electrical & gas

## 2. MATERIALS

- 21 Building materials & components
- 22 Chemicals
- 23 Forest products & paper
- 24 Metals-nonferrous
- 25 Metals-steel
- 26 Misc. materials & commodities

## 3. CAPITAL EQUIPMENT

- 31 Aerospace & military technology

## 32 Construction & housing

- 33 Data processing & reproduction
- 34 Electrical & electronics
- 35 Electronic components & instruments
- 36 Energy equipment & services
- 37 Industrial components
- 38 Machinery & engineering

## 4. CONSUMER GOODS

- 41 Appliances & household durables
- 42 Automobiles
- 43 Beverages & tobacco

## 44 Food & household products

- 45 Health & personal care
- 46 Recreation, other consumer goods
- 47 Textiles & apparel

## 5. SERVICES

- 51 Broadcasting & publishing
- 52 Business & public services
- 53 Leisure & tourism
- 54 Merchandising
- 55 Telecommunications
- 56 Transportation-airlines

## 57 Transportation-road & rail

- 58 Transportation-shipping
- 59 Wholesale & international trade

## 6. FINANCE

- 61 Banking
- 62 Financial services
- 63 Insurance
- 64 Real estate

## 7. OTHER

- 71 Multi-industry
- 81 Gold mines

## ALPHABETICAL LIST OF COMPANIES

preceding each company is its Global 1000 rank. The code following each company shows its nationality and rank within that nation. For statistics for a company, turn to the country listing and look for the company by its rank.

133 Cable & Wireless (BR-12)  
143 Caeatron Systems (US-342)  
904 Cadbury Schweppes (BR-38)  
252 Campbell Soup (US-91)  
540 Canadian Imperial Bank (CA-13)  
464 Canadian Pacific (CA-9)  
759 Canal Plus (FR-33)  
148 Canon (JA-48)  
716 Canon Sales (JA-193)  
189 Capital Cities/ABC (US-71)  
922 Caradon (BR-86)  
963 Carlsberg (DE-5)  
970 Canada Metallbox (FR-42)  
371 Carnival (US-133)  
642 Carolina Power & Light (US-251)  
280 Carvelco (FR-10)  
644 Carter Hall Harvey (IN-22)  
748 Casa Computer (JA-203)  
201 Caterpillar (US-73)  
609  
619 CBS (US-238)  
601 Centra & South West (US-230)  
894 Celestem (FR-39)  
851 Champion International (US-326)  
357 Chase Manhattan (US-126)  
235 Chemical Banking (US-85)  
194 Cheung Kong Holdings (HK-6)  
43 Chevron (US-21)  
338 Chiba Bank (JA-103)  
195 China Light & Power (HK-7)  
104 Chrysler (US-42)  
349 Cnubb (US-124)  
92 Chuoh Electric Power (JA-34)  
925 Chujo Pharmaceutical (JA-250)  
738 Chuokai Bank (JA-201)  
265 Chuokai Electric Power (JA-86)  
960 Chuogoku (SWI-5)  
504 Cigna (US-185)  
975 Cincinnati Financial (US-370)  
403 Cisco Systems (US-150)  
430 CITIC Pacific (HK-13)  
120 Citicorp (US-50)  
911 Citizens Watch (JA-252)  
940 Citizens Utilities (US-360)  
820 C.Y. Developments (SI-8)  
907 Coxco (US-343)  
614 CNA Financial (US-237)  
799 Coasol (US-334)  
14 Coca-Cola (US-5)  
617 Coles Myer (AS-11)  
277 Colgate-Palmolive (US-99)  
147 Columbia/HCA Healthcare (US-57)  
702 Comcast (US-268)  
699 Comco (US-267)  
566 Commercial Union Assurance (BR-50)  
376 Commerzbank (GE-15)  
477 Commonwealth Bank of Australia (AS-8)  
470 Commonwealth Edison (US-175)

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43 Chevron (US-21)  
338 Chiba Bank (JA-103)  
195 China Light & Power (HK-7)  
104 Chrysler (US-42)  
349 Cnubb (US-124)  
92 Chuoh Electric Power (JA-34)  
925 Chujo Pharmaceutical (JA-250)  
738 Chuokai Bank (JA-201)  
265 Chuokai Electric Power (JA-86)  
960 Chuogoku (SWI-5)  
504 Cigna (US-185)  
975 Cincinnati Financial (US-370)  
403 Cisco Systems (US-150)  
430 CITIC Pacific (HK-13)  
120 Citicorp (US-50)  
911 Citizens Watch (JA-252)  
940 Citizens Utilities (US-360)  
820 C.Y. Developments (SI-8)  
907 Coxco (US-343)  
614 CNA Financial (US-237)  
799 Coasol (US-334)  
14 Coca-Cola (US-5)  
617 Coles Myer (AS-11)  
277 Colgate-Palmolive (US-99)  
147 Columbia/HCA Healthcare (US-57)  
702 Comcast (US-268)  
699 Comco (US-267)  
566 Commercial Union Assurance (BR-50)  
376 Commerzbank (GE-15)  
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194 Cheung Kong Holdings (HK-6)  
43 Chevron (US-21)  
338 Chiba Bank (JA-103)  
195 China Light & Power (HK-7)  
104 Chrysler (US-42)  
349 Cnubb (US-124)  
92 Chuoh Electric Power (JA-34)  
925 Chujo Pharmaceutical (JA-250)  
738 Chuokai Bank (JA-201)  
265 Chuokai Electric Power (JA-86)  
960 Chuogoku (SWI-5)  
504 Cigna (US-185)  
975 Cincinnati Financial (US-370)  
403 Cisco Systems (US-150)  
430 CITIC Pacific (HK-13)  
120 Citicorp (US-50)  
911 Citizens Watch (JA-252)  
940 Citizens Utilities (US-360)  
820 C.Y. Developments (SI-8)  
907 Coxco (US-343)  
614 CNA Financial (US-237)  
799 Coasol (US-334)  
14 Coca-Cola (US-5)  
617 Coles Myer (AS-11)  
277 Colgate-Palmolive (US-99)  
147 Columbia/HCA Healthcare (US-57)  
702 Comcast (US-268)  
699 Comco (US-267)  
566 Commercial Union Assurance (BR-50)  
376 Commerzbank (GE-15)  
477 Commonwealth Bank of Australia (AS-8)  
470 Commonwealth Edison (US-175)

133 Cable & Wireless (BR-12)  
904 Caeatron Systems (US-342)  
904 Cadbury Schweppes (BR-38)  
252 Campbell Soup (US-91)  
540 Canadian Imperial Bank (CA-13)  
464 Canadian Pacific (CA-9)  
759 Canal Plus (FR-33)  
148 Canon (JA-48)  
716 Canon Sales (JA-193)  
189 Capital Cities/ABC (US-71)  
922 Caradon (BR-86)  
963 Carlsberg (DE-5)  
970 Canada Metallbox (FR-42)  
371 Carnival (US-133)  
642 Carolina Power & Light (US-251)  
280 Carvelco (FR-10)  
644 Carter Hall Harvey (IN-22)  
748 Casa Computer (JA-203)  
201 Caterpillar (US-73)  
609  
619 CBS (US-238)  
601 Centra & South West (US-230)  
894 Celestem (FR-39)  
851 Champion International (US-326)  
357 Chase Manhattan (US-126)  
235 Chemical Banking (US-85)  
194 Cheung Kong Holdings (HK-6)  
43 Chevron (US-21)  
338 Chiba Bank (JA-103)  
195 China Light & Power (HK-7)  
104 Chrysler (US-42)  
349 Cnubb (US-124)  
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699 Comco (US-267)  
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195 China Light & Power (HK-7)  
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349 Cnubb (US-124)  
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738 Chuokai Bank (JA-201)  
265 Chuokai Electric Power (JA-86)  
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430 CITIC Pacific (HK-13)  
120 Citicorp (US-50)  
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940 Citizens Utilities (US-360)  
820 C.Y. Developments (SI-8)  
907 Coxco (US-343)  
614 CNA Financial (US-237)  
799 Coasol (US-334)  
14 Coca-Cola (US-5)  
617 Coles Myer (AS-11)  
277 Colgate-Palmolive (US-99)  
147 Columbia/HCA Healthcare (US-57)  
702 Comcast (US-268)  
699 Comco (US-267)  
566 Commercial Union Assurance (BR-50)  
376 Commerzbank (GE-15)  
477 Commonwealth Bank of



## ALPHABETICAL LIST OF COMPANIES

The number preceding each company is its Global 1000 rank. The code following each company shows its nationality and rank within that nation. To find the statistics for a company, turn to the country listing and look for the company by its rank.

383 United (US-14)  
410  
651  
673  
710  
214  
624 Johnson (US-245)  
463 Davis (US-70)  
46  
875 Lora (US-331)  
934 John Development (US-355)  
677 Louisiana Pacific (US-260)  
546 Jones (US-210)  
173  
458 Industrie des Eaux Dumez (FR-21)

### M

780  
768 Matsushita Motor (JA-208)  
773  
368 Matsuyama Banking (JA-1)  
700 MATSUYAMA (JA-208)  
247  
515 Matsushita Electric Works (JA-93)  
107 Mats & Sorenson (BR-1)  
712 Matsushita Electric Works (JA-93)  
386  
599  
294  
398 Mats (JA-9)  
592 Mats (US-225)  
572  
25  
295 Matsushita Electric Works (JA-93)  
493 Matsushita Electric Works (JA-93)  
997 Matsushita Electric Works (JA-93)  
562 Mats (US-21)  
239 May Department Stores (US-80)  
426 Mazda Motor (JA-131)  
641 MBI (JA-131)  
204 McCaw Cellular Communications (US-54)  
64 McDonald (US-30)  
531 McDonald Douglas (US-197)  
789 McGraw-Hill (US-300)  
154  
757 McKesson (US-293)  
956 Mead (US-300)  
523 Mead (US-300)  
621 Mellon Bank (US-261)  
583 Mellon Bank (US-261)  
214 MEPC (BR-5)  
93  
296 Merrill Lynch (US-107)  
593 Merrill Lynch (US-107)  
761 Merrill Lynch (US-107)  
333 Merrill Lynch (US-107)  
899 Merrill Lynch (US-107)

70 Merrill Lynch (US-107)  
4 Merrill Lynch (US-107)  
138 Merrill Lynch (US-107)  
118 Merrill Lynch (US-107)  
55 Merrill Lynch (US-107)  
312 Merrill Lynch (US-107)  
415 Merrill Lynch (US-107)  
323 Merrill Lynch (US-107)  
765 Merrill Lynch (US-107)  
71 Merrill Lynch (US-107)  
968 Merrill Lynch (US-107)  
74 Merrill Lynch (US-107)  
912 Merrill Lynch (US-107)  
171  
831 Merrill Lynch (US-107)  
236 Merrill Lynch (US-107)  
409 Merrill Lynch (US-107)  
553 Merrill Lynch (US-107)  
993  
781 Merrill Lynch (US-107)  
122 Merrill Lynch (US-107)  
544 Merrill Lynch (US-107)  
30 Merrill Lynch (US-107)  
241  
502  
158  
563  
628 Merrill Lynch (US-107)  
49  
146  
243

579  
654 Merrill Lynch (US-107)  
188 Merrill Lynch (US-107)  
564 Merrill Lynch (US-107)  
868  
939 Merrill Lynch (US-107)  
293  
255 Merrill Lynch (US-107)  
125 Merrill Lynch (US-107)  
908 Merrill Lynch (US-107)  
518  
897  
100 Merrill Lynch (US-107)  
32 Merrill Lynch (US-107)  
721 Merrill Lynch (US-107)

### N

579  
654 Nissan Electric Railway (JA-19)  
188 Nissan Electric Railway (JA-19)  
564 Nissan Electric Railway (JA-19)  
868  
939 Nissan Electric Railway (JA-19)  
293  
255 Nissan Electric Railway (JA-19)  
125 Nissan Electric Railway (JA-19)  
908 Nissan Electric Railway (JA-19)  
518  
897  
100 Nissan Electric Railway (JA-19)  
32 Nissan Electric Railway (JA-19)  
721 Nissan Electric Railway (JA-19)

328 New York Paper (JA-99)  
486 New York Development (HK-14)  
936 New York Times (US-350)  
689 Newbridge Networks (CA-18)  
704 News (US-209)  
585 Newsweek (US-219)  
799 Newsweek (US-219)  
159 Newsweek (US-219)  
794 Newsweek (US-219)  
691 Newsweek (US-219)  
934 Newsweek (US-219)  
799 Newsweek (US-219)  
635 Newsweek (US-219)  
159 Newsweek (US-219)  
83 Newsweek (US-219)  
682 Newsweek (US-219)  
275 Newsweek (US-219)

232 Nippon Credit Bank (JA-73)  
944 Nippon Electric Glass (JA-258)  
191 Nippon Express (JA-60)  
570 Nippon Fire & Marine (JA-103)  
723 Nippon Light Metal (JA-197)  
770 Nippon Meat Packers (JA-209)  
244 Nippon Oil (JA-85)  
387 Nippon Paper (JA-117)  
881 Nippon Shipyard (JA-242)  
53 Nippon Steel (JA-20)  
1 Nippon Telegraph & Telephone (JA-1)  
849 Nippon Television Network (JA-233)  
344 Nippon Yusen (JA-100)  
110 Nippon Yusen (JA-100)  
865 Nippon Yusen (JA-100)  
893 Nippon Yusen (JA-100)  
73 Nippon Yusen (JA-100)  
806 Nippon Yusen (JA-100)  
551 Nippon Yusen (JA-100)  
649 Nippon Yusen (JA-100)  
731 Nippon Yusen (JA-100)  
237 Nippon Yusen (JA-100)  
536 Nippon Yusen (JA-100)  
17 Nippon Yusen (JA-100)  
660  
695  
266 Nippon Yusen (JA-100)  
319 Nippon Yusen (JA-100)  
948 Nippon Yusen (JA-100)  
845 Nippon Yusen (JA-100)  
933 Nippon Yusen (JA-100)  
314 Nippon Yusen (JA-100)  
289 Nippon Yusen (JA-100)  
676 Nippon Yusen (JA-100)  
451 Nippon Yusen (JA-100)  
674 Nippon Yusen (JA-100)  
645 Nippon Yusen (JA-100)  
854 Nippon Yusen (JA-100)  
429 Nippon Yusen (JA-100)  
114 Nippon Yusen (JA-100)

### O

321 Overseas Chinese Bank (US-31)  
422 Overseas Chinese Bank (US-31)  
494 Overseas Chinese Bank (US-31)  
724 Overseas Chinese Bank (US-31)  
483 Overseas Chinese Bank (US-31)  
950 Overseas Chinese Bank (US-31)  
650 Overseas Chinese Bank (US-31)  
309 Overseas Chinese Bank (US-31)  
994 Overseas Chinese Bank (US-31)  
234 Overseas Chinese Bank (US-31)  
930 Overseas Chinese Bank (US-31)  
180 Overseas Chinese Bank (US-31)  
186 Overseas Chinese Bank (US-31)

### P

703 Pacific Dunlop (US-12)  
199 Pacific Dunlop (US-12)  
157 Pacific Dunlop (US-12)  
499 Pacific Dunlop (US-12)  
634 Pacific Dunlop (US-12)  
481 Pacific Dunlop (US-12)  
302 Pacific Dunlop (US-12)  
490 Pacific Dunlop (US-12)  
694 Pacific Dunlop (US-12)  
994 Pacific Dunlop (US-12)  
411 Pacific Dunlop (US-12)  
437 Pacific Dunlop (US-12)  
177 Pacific Dunlop (US-12)  
766 Pacific Dunlop (US-12)  
41 Pacific Dunlop (US-12)  
819 Pacific Dunlop (US-12)  
324 Pacific Dunlop (US-12)  
339 Pacific Dunlop (US-12)  
77 Pacific Dunlop (US-12)  
962 Pacific Dunlop (US-12)  
602 Pacific Dunlop (US-12)  
643 Pacific Dunlop (US-12)  
18 Pacific Dunlop (US-12)  
260 Pacific Dunlop (US-12)  
281 Pacific Dunlop (US-12)  
656 Pacific Dunlop (US-12)  
501 Pacific Dunlop (US-12)  
970 Pacific Dunlop (US-12)  
970 Pacific Dunlop (US-12)  
396 Pacific Dunlop (US-12)  
459 Pacific Dunlop (US-12)

341  
322 Polygram (NE-7)  
462 PowerGen (BR-41)  
301 PPG Industries (US-108)  
930  
585 Pressburg (GE-24)  
892 Price/Costco (US-338)  
159 Procter & Gamble (US-9)  
873 Procter & Gamble (US-9)  
653 Procter & Gamble (US-9)  
874 Procter & Gamble (US-9)  
310 Procter & Gamble (US-9)  
926 Pryca (SP-12)  
361 Public Service Enterprise Group (US-128)

### QR

557 Quaker Oats (US-206)  
715 Quaker Oats (US-206)  
520  
576  
283 Raytheon (US-103)  
513 Reader's Digest Association (US-189)  
760 Reader's Digest Association (US-189)  
665 Reader's Digest Association (US-189)  
937 Reader's Digest Association (US-189)  
155 Reader's Digest Association (US-189)  
NR  
850 Reader's Digest Association (US-189)  
242  
999 Republic of China (US-379)  
425 Resorts World (MA-4)  
190 Reuters Holdings (BR-19)  
929 Reynolds Metals (US-351)  
308 Rhône-Poulenc (FR-15)  
550 Rhône-Poulenc (FR-15)  
405 Ricoh (JA-123)  
374 Rijkswaterstaat (US-136)  
961 Rijkswaterstaat (US-136)  
901  
16 Pöschel Holding (SW-1)  
309 Pöschel Holding (SW-1)  
597 Pöschel Holding (SW-1)  
608 Pöschel Holding (SW-1)  
75 Pöschel Holding (SW-1)  
687  
389 Pöschel Holding (SW-1)  
503 Pöschel Holding (SW-1)  
NR Pöschel Holding (SW-1)  
2 Pöschel Holding (SW-1)  
152 Pöschel Holding (SW-1)  
560 Pöschel Holding (SW-1)  
149 Pöschel Holding (SW-1)

### S

630  
742  
227  
251 Sanyo Electric (US-107)  
15  
777 Sanyo Electric (US-107)  
445 Sanyo Electric (US-107)  
94  
595  
262  
591 Sanyo Electric (US-107)  
11 Sanyo Electric (US-107)  
218 Sanyo Electric (US-107)  
671  
843 Sanyo Electric (US-107)  
215 Sanyo Electric (US-107)  
391  
565  
164 Sanyo Electric (US-107)  
140 Sanyo Electric (US-107)  
441 Sanyo Electric (US-107)  
719 Sanyo Electric (US-107)  
577 Sanyo Electric (US-107)  
607 Sanyo Electric (US-107)  
196 Sanyo Electric (US-107)  
981 Sanyo Electric (US-107)  
98  
335  
327  
719 Sanyo Electric (US-107)  
980  
872  
436 Sanyo Electric (US-107)  
288 Sanyo Electric (US-107)  
52 Sanyo Electric (US-107)  
708 Sanyo Electric (US-107)  
946 Sanyo Electric (US-107)  
952  
87  
978 Sanyo Electric (US-107)  
725 Sanyo Electric (US-107)  
NR Sanyo Electric (US-107)  
917  
362  
810 Sanyo Electric (US-107)  
343  
358 Sanyo Electric (US-107)  
801 Sanyo Electric (US-107)  
545  
207 Sanyo Electric (US-107)  
690 Sanyo Electric (US-107)  
542 Sanyo Electric (US-107)  
697 Sanyo Electric (US-107)

59 Siemens (GE-2)  
839 Siemens (GE-2)  
633 Siemens (GE-2)  
193 Singapore Airlines (SI-2)  
525 Singapore Airlines (SI-2)  
26 Singapore Telecommunications (SI-1)  
109 SIP (IT-2)  
754 Skanska (SWE-12)  
856 Skanska (SWE-12)  
126 Skanska (SWE-12)  
866 Skanska (SWE-12)  
269 Skanska (SWE-12)  
534 Skanska (SWE-12)  
662 Skanska (SWE-12)  
68 Sanyo (JA-24)

404 Sony Music Entertainment (JA-122)  
181 Sony Music Entertainment (JA-122)  
752 Sony Music Entertainment (JA-122)  
627 Sony Music Entertainment (JA-122)  
54 Southwest Airlines (US-241)  
54 Southwest Airlines (US-241)  
153 Sprint (US-59)  
784 Sprint (US-59)  
735 Standard Chartered (BR-60)  
836 State Street Bank (US-321)  
127 STET (IT-3)  
788 Stora Kopparbergs Bergslags (SWE-10)  
286 Stora Kopparbergs Bergslags (SWE-10)  
9 Sumitomo Bank (JA-5)  
315 Sumitomo Bank (JA-5)  
208 Sumitomo Bank (JA-5)  
203 Sumitomo Bank (JA-5)  
749 Sumitomo Bank (JA-5)  
986 Sumitomo Bank (JA-5)  
386 Sumitomo Bank (JA-5)  
256 Sumitomo Bank (JA-5)  
489 Sumitomo Bank (JA-5)  
311 Sumitomo Bank (JA-5)  
81 Sumitomo Bank (JA-5)  
705 Sumitomo Bank (JA-5)  
115  
412 Sumitomo Bank (JA-5)  
418 Sumitomo Bank (JA-5)  
885 Sumitomo Bank (JA-5)  
797 Sumitomo Bank (JA-5)  
169 Sumitomo Bank (JA-5)  
211 Sumitomo Bank (JA-5)  
976 Sumitomo Bank (JA-5)  
484 Sumitomo Bank (JA-5)  
517 Sumitomo Bank (JA-5)

### T

364  
377 Takeda Pharmaceutical (JA-115)  
891 Takeda Pharmaceutical (JA-115)  
224  
421 TDK (JA-128)  
931 Technology Resources Industries (MA-7)  
475 TDK (JA-128)  
378 TDK (JA-128)  
263 TDK (JA-128)  
447 TDK (JA-128)  
160 TDK (JA-128)  
132 TDK (JA-128)  
924 TDK (JA-128)  
111 TDK (JA-128)  
292 TDK (JA-128)  
392 TDK (JA-128)  
106 TDK (JA-128)  
332 TDK (JA-128)  
326 TDK (JA-128)  
500 TDK (JA-128)  
906 TDK (JA-128)  
351 TDK (JA-128)  
740 TDK (JA-128)  
381 TDK (JA-128)  
474 TDK (JA-128)  
985 TDK (JA-128)  
136 TDK (JA-128)  
606 TDK (JA-128)  
446 TDK (JA-128)  
864 TDK (JA-128)  
965 TDK (JA-128)  
161 TDK (JA-128)  
474 TDK (JA-128)  
78 TDK (JA-128)  
886 TDK (JA-128)  
816 TDK (JA-128)  
20 TDK (JA-128)  
538 TDK (JA-128)  
137 TDK (JA-128)  
664 TDK (JA-128)  
287 TDK (JA-128)  
861 TDK (JA-128)  
921 TDK (JA-128)  
675 TDK (JA-128)  
238 TDK (JA-128)  
258  
233 TDK (JA-128)  
900 TDK (JA-128)  
530 TDK (JA-128)  
50 TDK (JA-128)  
342  
174 TDK (JA-128)  
423 TDK (JA-128)  
433 TDK (JA-128)  
255 TDK (JA-128)

814 Toyota (JA-224)  
495 Toyota Automatic Loom Works (JA-3)  
6 Toyota Motor (JA-3)  
219 Toyota Motor (JA-3)  
598 Toyota Motor (JA-3)  
620 Toyota Motor (JA-3)  
220 Toyota Motor (JA-3)  
637 Toyota Motor (JA-3)  
511 Toyota Motor (JA-3)  
496 Toyota Motor (JA-3)  
808 Toyota Motor (JA-3)  
835 Toyota Motor (JA-3)

### U

918 U.S. Bancorp (US-346)  
375 U.S. Bancorp (US-346)  
888 U.S. Bancorp (US-346)  
224 U.S. Bancorp (US-346)  
39 U.S. Bancorp (US-346)  
NR U.S. Bancorp (US-346)  
NR U.S. Bancorp (US-346)  
330 U.S. Bancorp (US-346)  
670 U.S. Bancorp (US-346)  
778 U.S. Bancorp (US-346)  
658 U.S. Bancorp (US-346)  
751 U.S. Bancorp (US-346)  
175 U.S. Bancorp (US-346)  
988 U.S. Bancorp (US-346)  
325 U.S. Bancorp (US-346)  
420 U.S. Bancorp (US-346)  
285 U.S. Bancorp (US-346)  
366 U.S. Bancorp (US-346)  
711 U.S. Bancorp (US-346)  
927 U.S. Bancorp (US-346)  
444 U.S. Bancorp (US-346)  
99 U.S. Bancorp (US-346)  
480 U.S. Bancorp (US-346)  
981 U.S. Bancorp (US-346)

### V

857 Valeo (FR-36)  
128 Valeo (FR-36)  
535 Verano Luxury Group (BR-49)  
529 Verano Luxury Group (BR-49)  
806 Verano Luxury Group (BR-49)  
605 Verano Luxury Group (BR-49)  
438 Viac (GE-18)  
709 Viac (GE-18)  
916 Viac (GE-18)  
290 Viac (GE-18)  
249 Viac (GE-18)  
340 Viac (GE-18)

### W

440 Wachovia (US-164)  
13 Wachovia (US-164)  
494 Wachovia (US-164)  
245 Wachovia (US-164)  
928 Wachovia (US-164)  
779 Wachovia (US-164)  
336 Wachovia (US-164)  
476 Wachovia (US-164)  
282 Wachovia (US-164)  
450 Wachovia (US-164)  
547 Wachovia (US-164)  
402 Wachovia (US-164)  
778 Wachovia (US-164)  
254 Wachovia (US-164)  
741 Wachovia (US-164)  
497 Wachovia (US-164)  
640 Wachovia (US-164)  
559 Wachovia (US-164)  
890 Wachovia (US-164)  
827 Wachovia (US-164)  
758 Wachovia (US-164)  
515 Wachovia (US-164)  
953 Wachovia (US-164)  
145 Wachovia (US-164)  
818 Wachovia (US-164)  
626 Wachovia (US-164)  
419 Wachovia (US-164)

### XYZ

213 Xerox (US-76)  
913 Xerox (US-76)  
718 Xerox (US-76)  
987 Xerox (US-76)  
206 Xerox (US-76)  
407 Xerox (US-76)  
621 Xerox (US-76)  
569 Xerox (US-76)  
220 Xerox (US-76)  
325 Xerox (US-76)  
234 Xerox (US-76)  
271 Xerox (US-76)



# renaissance

## *The Remaking of the Japanese Corporation*

Never in their history have Japanese corporations faced as many formidable challenges as those which confront them today.

A new era of lower economic growth has brought with it enormous pressures on Japanese companies to restructure

themselves so that they can compete long term in an increasingly global marketplace.

As the yen strengthens to new all-time levels, Japanese companies also are being pressured to allocate more production overseas, especially in Asian







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JS USC 380

# It's not too early to prepare for the 1996 Olympic Games when you're in it for the long run.

A runner prepares for an Olympic event. Every step, every stride is analyzed and scrutinized.

A gymnast practices a flip. Each leap, each landing is studied in minute detail.

A swimmer slips through the water with grace and speed. Every stroke and breath is examined.

At the U.S. Olympic Training Center, Panasonic provides video equipment to help improve every step, breath and stroke of an athlete's performance. Matsushita is not only helping the U.S. Olympic team, but we're also helping support the Olympic movement around the world.

And the world will witness the athletes' efforts through our technology. After a worldwide competition, Matsushita's Panasonic digital video system has been selected as the official broadcast equipment of the 1996 Olympic Games. It will capture the Olympic Summer Games in stunning detail and breathtaking color.



For more than a decade, Matsushita has been dedicating its vast resources to the Olympic Games. So, while it might seem like it's too early to prepare for the 1996 Olympic Games, it's not. Not when you're in it for the long run.

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**Matsushita Electric**  
Panasonic Technics *Quasar*

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## renaissance

## The Remaking of the Japanese Corporation

## NEC INNOVATION

When an engineer speaks about innovation, you might assume the topic is technology, but NEC Corporation's new President, Dr. Hisashi Kaneko uses the term in a much broader and more competitive context.

"Innovation," he says, "must be the essence of our corporate culture. It includes technology, products, organization, and even the way we think about our business."

"In America, there are ten times as many personal computers as in Japan," he said. "Our mission is not only to develop the software but to show our customers in Japan how using these new electronic tools can help their business, or make their daily life more convenient."

Before that potential can be realized, Japan must pull out of the prolonged recession which has inhibited business growth for more than three years.



Improving service to customers, says Dr. Kaneko, requires a special kind of innovation.

"Were it not for our customers, our products would not even exist," he says. "Assuring customer satisfaction is a never-ending process. If we don't listen carefully to our customers, we cannot succeed."

With a new era of so-called multimedia services on the horizon, a company like NEC faces special challenges.

"Multimedia is not a collection of hardware," says Dr. Kaneko. "It is software which will enable you to concentrate a variety of functions at a single terminal."

Even though NEC dominates Japan's personal computer market, there is enormous room for growth.



Hisashi Kaneko  
President

"I feel the economy has bottomed out and that we will see a recovery," said Dr. Kaneko, "but it will not be as vigorous as in America."

That is one reason why overseas markets are a crucial part of NEC's future strategic plans.

Long term, the strongest growth will come in Asia.

"The ceremony marking the resumption of diplomatic relations between China and Japan in 1972," Dr. Kaneko said, "was transmitted via an NEC earth satellite station.

That symbolized the beginning of a strong role we plan to have in Chinese economic growth."

cont. from cover

markets which promise the strongest growth over the next two decades.

Other issues, including how to cope with trade protectionism abroad and how to deregulate their home markets, are major topics of debate among Japan's business leaders.

There are promising signs that Japan's most severe recession since World War II may have bottomed out, but the need for corporate restructuring has not diminished.

For some companies, the need to change is a matter of survival. For others, it is a key to remaining competitive in the 21st century.

One of the new terms associated with this trend is called Business Process Reengineering (BPR). The key concept of BPR is not merely reorganizing a company, but rethinking every aspect of doing business, with the purpose of making the company more efficient, more competitive and thus more competitive.

One of the key driving forces behind this trend is a renewed emphasis on what Japanese companies call "CS" (customer satisfaction).

Gone are the days when Japanese electronics firms tried to out-do each other with new but often confusing product features.

cont. on page 10



## The way the world sees us

Kawasaki Heavy Industries, Ltd. is proud of its century of accomplishments as one of the world's leading high-technology enterprises. As the 21st century approaches, we are aiming to become an ever more valued contributor to the international community. This we will do by continuing our quest for excellence in the air, on land, at sea and in space.

Aircraft, rolling stock, ships, manufacturing plants, industrial robots, submersibles, steel structures... the list is endless: Kawasaki products truly span the Earth. But we're not interested simply in filling up the planet with our goods. Behind everything we do lies a deep

commitment to the global environment, and we are working in countless ways to develop new technologies to control pollution and improve life worldwide.

We believe that to fulfill our potential as a global corporation, we have to continually push back frontiers—of space, of high technology and of environmental protection—in other words, the frontiers of our own potential.

People who know us understand that the Kawasaki name is a byword for quality, reliability and innovation around the globe. Get to know us, too. Try seeing us the way we see the world.

## The way we see the world

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## renaissance

*The Remaking of the Japanese Corporation*

Tadakazu Yamamoto, senior managing director of Matsushita Electric Industrial Co., Ltd., opposes protectionism in any form, but acknowledges the need for corporate strategies to handle an uncertain future.

"We view so-called trading blocs in two ways," Yamamoto said. "On the positive side, economic activities in the region are stimulated, but on the other hand, there is the problem of

higher technology, value-added products, while overseas products will be manufactured according to local market needs.

The importance of Asia in this global picture is reflected in that region's 60 percent share of Matsushita's total overseas production.

"Asia will continue to enjoy high economic growth," Yamamoto said, "and will be not only a strong production base for industrial products, but a

annually. He predicts that this level of growth will continue for another three years.

In the future, the enormous Chinese market, with a population of 1 billion people, will have obvious impact on the region, and the world.

As that economy develops, Matsushita's own strategies are changing.

"Exports and technology support used to be our main activities



possible discrimination against 'outsiders.' We want to be 'insiders,' to cope with any developments in the trading bloc."

Within the NAFTA (North American Free Trade Agreement) area, for example, Matsushita has three sales companies and 19 manufacturing facilities. The gross value of all business handled by these companies in 1992 was 730 billion yen (about \$5.8 billion), and the value of local production was 220 billion yen (about \$1.7 billion).

"We try to produce close to the markets we serve," Yamamoto said, "but the world is moving rapidly toward a borderless economy."

In the future, the ratio between Matsushita's Japan and overseas sales is likely to be about 50-50, he said.

In this new era of global marketing, the emphasis in Japan will be toward

booming consumer market."

Yamamoto expects that Asian nations and Japan will play complementary roles in product supply, thus contributing to industrial development. "For example," he said, "our audio products factory in Singapore and our air conditioner and color TV plants in Malaysia now export to Japan and the rest of the world."

In 1992, total sales volume for the Matsushita group in Asia was 1 trillion yen (about \$8 billion), which amounted to about 14 percent of the company's total consolidated sales.

Over the past five years, Yamamoto said, Matsushita sales companies in Asia have grown by about 10 percent

China," Yamamoto said, "but to meet local needs, we have established 11 manufacturing facilities, five of which are now in operation. Eleven of these have local joint venture partners, with plans to produce for the Chinese market."



*Tadakazu Yamamoto*  
Senior Managing Director

Eventually, Matsushita expects to export to Japan and other third countries, but throughout the coming years of Chinese economic development, Yamamoto said, "We want to play

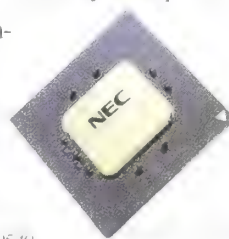
role in improving the standard of living in China, through supplying quality products."

*"This new computer RISC chip technology is really something. It took me one day to complete an assignment that used to take weeks. Now, if you'll excuse me, I'm off to have dinner with my family."*



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## renaissance

*The Remaking of the Japanese Corporation*

"Asia is a key."

With those words, Takeshi Okatomi, Toshiba Corporation's executive vice president, international, describes what he – and Toshiba – see as one of the world's most promising regions.

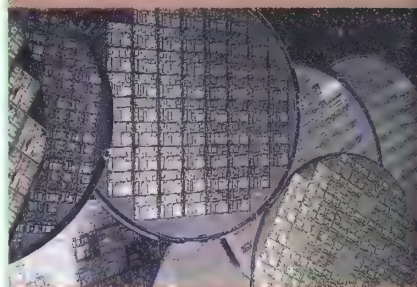
Most forecasters agree, predicting that the value of the Asian economy will equal those of North America and Europe by 2000.

Okatomi goes further. "By 2005," he

in critical areas, like manufacturing and pollution control. We want to contribute to sustainable growth and environmental protection."

The result is an impressive and increasing number of state-of-the-art operations throughout Asia.

Toshiba manufactures semiconductors, facsimile machines, and telephones in Malaysia; VCRs and TV sets in Singapore; integrated circuits, color picture tubes, refrigerators, and air



cont. from page 4

tions. Now, they're listening much more closely to the voice of the marketplace, the customer.

Toshiba Corporation discovered that its customers often found video cassette recorders difficult to operate. So it designed a new model which not only is simpler to operate, but requires fewer parts. The company not only achieved customer satisfaction, but lowered the cost of production.

Of all the changes in the Japanese corporate world, none is more dramatic than the long-term shift toward Asian markets.

Less than a decade ago, the value of Japan's exports to the United States was nearly one-third larger than those to Asia. Today, the ratio is almost reversed. Over the same period, Japan's direct investment in Asia has doubled, from about 10% of its world total in 1985, to about 20% today.

That major shift is based on the stunning growth of Asian economies themselves.

One generation ago, Asia represented only about 4% of the global economy. Today, it accounts for 20%, and by the early 21st century, according to most forecasts, Asia will comprise 25% of the world economy.



says, "Asia will have the largest economy in the world."

This potential is attracting Toshiba and many other Japanese companies to invest in the region. "Our commitment is long term," says Okatomi.

Toshiba's record in Asia and Oceania speaks for itself. Since 1987, annual sales have climbed from \$2.3 billion to \$4 billion, while its affiliates in Asia have more than doubled, to a total of 22 companies employing about 13,000 people.

"We want to encourage growth in the region," Okatomi said, "without trade friction.

"Toshiba promotes localization," he explains, "in marketing and procurement, and through technical transfers

conditioners in Thailand; and it has a compressor plant in Taiwan and two new components plants in China.

Toshiba's Asian activities are part of its global operations – integrating major functions, from product development and manufacturing to marketing and service, in each of the three major economic regions outside Japan.

Okatomi says that China will play a major role in this structure, first as a manufacturing base for exports to world markets, then as a domestic market in its own right.

Throughout Asia, sales of air conditioners, refrigerators, TV sets, and video cassette players enjoy steady growth, he said. As that mix changes, so will Toshiba's products.



Takeshi Okatomi  
Exec. Vice President

# renaissance The Remaking of the Japanese Corporation

Over the next 20 years in the construction business, predicts Toyoda Corporation President Masaki Kashiwara, the prime markets in Asia will be Malaysia, the Philippines, Vietnam, and Cambodia.

There also is a growing consensus, as expressed by Toyoda Co. President Takeshi Kawai, that "We can't survive any longer just by exporting. We've got to produce locally, and help develop reliable local suppliers."

The shift of Japanese economic attention to Asia comes at a time when U.S. and European corporations, despite much talk about the importance of Asian markets, have a weaker strategic position there relative to what was the case a decade ago.

Nothing better illustrates the rapidly developing economic business integration in Asia than the concept of the so-called ASEAN automobile. Named after ASEAN (Association of Southeast Asian Nations), the ASEAN car may have a transmission made in Indonesia, brake lines from Malaysia, body panels stamped in Thailand, and the display panel from the Philippines. But the label, if current trends continue, almost certainly will be Japanese.

cont. on page 14



## TOKYU HOTELS PROFILE

Tokyu Hotels, in partnership with its American hotel reservation agent, Robert F. Warner, Inc. is making it easier than ever to book a room in Japan.

All you have to do is dial Tokyu's 24-hour toll-free number (1-800-428-6598) and within minutes your reservation will be sent directly to the Tokyu Hotel in question by an on-line computer system.



Warner President Kathleen M. Prodan also announces that in September, Tokyu will have a full customer service organization in place to serve guests from the U.S. and Canada.



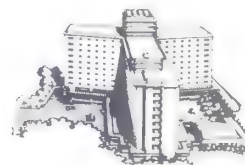
Capital Tokyu Hotel,  
Tokyo



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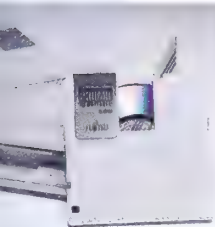


A circular wreath made of red vinyl records, arranged in a ring around the central text. Each record has a white center with a small black dot.

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the data files it generates — are gluttons for  
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disks. ∞ It's not the first time we've established a world standard in  
technology. And, with our \$3 billion annual investment in R&D,  
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systems for handling voice, data and video. And  
we were the first to offer a comprehensive set of ICs for ATM. ∞ Our  
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that today's creative environment offers two  
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we're not looking back.



∞  
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**COMPUTERS, COMMUNICATIONS, MICROELECTRONICS**



## renaissance *The Remaking of the Japanese Corporation*

### FUTURES PROFILE

If there is one certainty in a changing global business world, it is this:

Technology never stands still.

This is why Tatsuzumi Furukawa, group manager for multimedia projects at Fujitsu, Ltd., predicts that his company's computer and telecommunications technologies will be linked to virtually every new market his company is targeting over the next

rooms and prep schools into millions of Japanese homes.

"Lectures now attended by hundreds of people in a public auditorium," he said, "will be seen by millions, live, right in their homes."

Fujitsu has its own framework for presenting this multiplicity of information.

Habitat, an interactive mode for presenting, requesting, and receiving

To confirm that this is no dream world, Fujitsu is putting its concept to the test. When their people attend an international meeting these days they often take along a portable minicam with their personal computer, to create an on-scene report which includes both pictures and text data.

Another future market in which Fujitsu is playing a role involves



decade and beyond.

The over-riding trend of that future, he says, will be "community-linked business information."

That is Furukawa's way of defining a popular term these days: multimedia.

As optical fiber communications systems go into place around the world, he foresees a major impact not only in the business world, but in our daily lives.

"Information," he said, "not only will move thousands of times faster than before, but it will include video as well as text data."

In Japan, education-related services, already valued at tens of billions of dollars annually, will spread from class-

rooms and prep schools into millions of Japanese homes. Lucas Films in the United States.



*Tadashi Sekizawa*  
President, and  
Rep. Director

Fujitsu has purchased global rights to market and further develop a system which can be used for education, home shopping, home banking, entertainment, and many other markets, which Furukawa freely admits, "we haven't yet thought of."

In short, Habitat is an electronic platform for precisely the kind of broad impact information services which Furukawa predicts is the real future of multimedia.



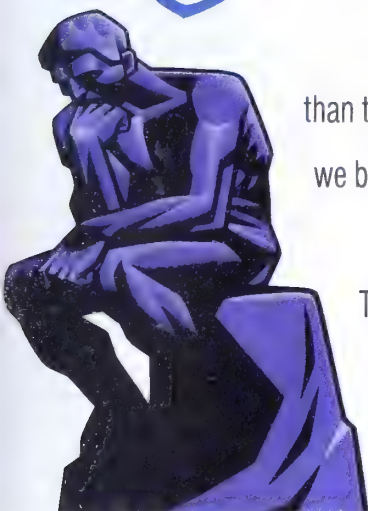
*Tatsuzumi Furukawa*  
Group & Division  
Manager,  
Multimedia Project  
Promotion Division

data "recycling" concept called Intelligent Pad. The Intelligent Pad makes it easier than ever before for software developers to share blocks of data which may contain text, sound, graphics, photos, and video information.

"We're working with software companies, and one of our computer industry competitors," says Furukawa, "because there is no point in trying to develop this all by ourselves. We believe that by sharing technology, we will create a larger market demand."

# Innovation is *a little crazy.*

In 1973, we built the world's largest power source.  
20 years later, we built the smallest.



Time was when power was big.

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than the geothermal power plant turbine  
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It packs your entire office into a computer that's less than half the  
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your desktop computer does. On a plane. On a boat.  
In a cabin on a mountain.



*The Portégé T3400 Series  
Toshiba's smallest, most powerful  
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In Touch with Tomorrow  
**TOSHIBA**




**renaissance**
*The Remaking of the Japanese Corporation***RENAISSANCE PROJECT**

The people at Kawasaki Heavy Industries, one of the major heavy machinery and engineering companies in the world, often say that their aim is to turn dreams into reality.

A few weeks ago, something which had been a dream for more than 200 years, the Eurotunnel, became a reality. Kawasaki technology, skill, and foresight played a key role in helping

another Kawasaki TBM achieved the breakthrough of the second main tunnel.

Two of the five boring machines used on the French side of the project were ordered from Kawasaki by Transmanche Construction (TMC), to be used for boring the main railway tunnels.

The specifications, like the project itself, were unparalleled. The goal was



that dream come true.

Three years earlier, at 11:30 on a morning in May, there was an unexpected sound 330 feet beneath the English Channel – the applause of workers celebrating the first of two historic breakthroughs.

The word “breakthrough” is often misused, but in this case, it was precisely correct. A Kawasaki tunnel boring machine (TBM) broke through the last barrier of rock and earth which separated Great Britain and the European continent. Later,

to bore 500 meters (1650 feet) per month. The Kawasaki machines not only met that standard, but more than doubled it, month after month. As a result, the project was finished eight months ahead of schedule.

When it isn't part of epoch-making events, Kawasaki equipment is part of everyday life around the world, in the form of passenger coaches on trains and subways, motorcycles, ocean transport vessels, aircraft and even in the latest space vehicles.



**Kawasaki's Eurotunnel  
boring machine**

cont. from page 9

At home, meanwhile, Japanese executives are encouraged by several economic indicators, including housing starts.

Housing starts for the fiscal year which ended March 31 surpassed 1.5 million for the first time in three years, according to the Ministry of Construction. Housing starts exceeding 1.4 million a year represent “swift, vigorous growth,” in the ministry's words.

The Housing Loan Corp. found in a survey that of its customers who took loans, 42.4% bought new air conditioning, 41.8% lighting equipment, 28.5% color TVs, 36.8% a bed, and 24.3% a new or used car within a year of purchasing real estate. Many people purchased more than one item, thus showing that a strong ripple effect is being created by the housing start comeback.

Despite these encouraging signs, many Japanese executives feel strongly that unless their home market is deregulated, long term growth will be stunted.

Key targets for reform which are supported by many Japanese corporate leaders include more equitable income tax guidelines and new building and land zoning regulations.

# renaissance *The Remaking of the Japanese Corporation*

seventh of Tokyo, for  
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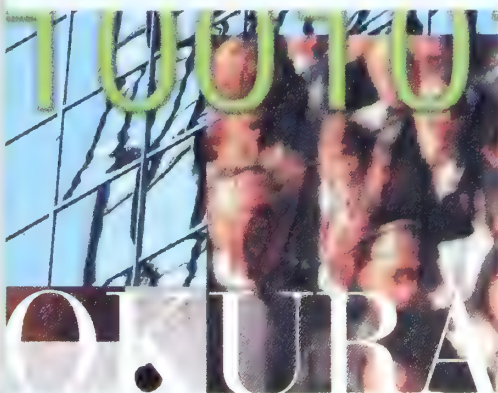
business consultant James  
glen and others point out,  
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are positioning themselves  
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predicting 2% growth in  
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## HOTEL OKURA PROFILE

Great hotels all strive for the same goals of excellence. They use the acronym "ACS" (Accommodations, Cuisine, Service) to define those qualities which separate the best from the rest.

In an increasingly competitive international hotel market, the key challenge to executives like Hotel Okura Managing Director Mikio Matsui is how to further improve its "ACS."



Since it opened 32 years ago, the Okura has emphasized service with a personal touch. In its search for new ways of improving customer satisfaction, its latest innovation is a plan to ease the most unpleasant side-effect of international travel – jet lag.

A new program, under development in coordination with a Tokyo hospital, will create a special environment to help Okura guests recover from jet lag.

A package of services will include the Okura's health club and swimming pool, special lighting and 'water massage' devices, and menus designed to freshen up tired bodies.



Hotel Okura.  
Tokyo

*This special section was written by  
Michael Berger, former Tokyo bureau chief for  
The Wall Street Journal who is now a Tokyo-based  
media consultant and freelance writer*

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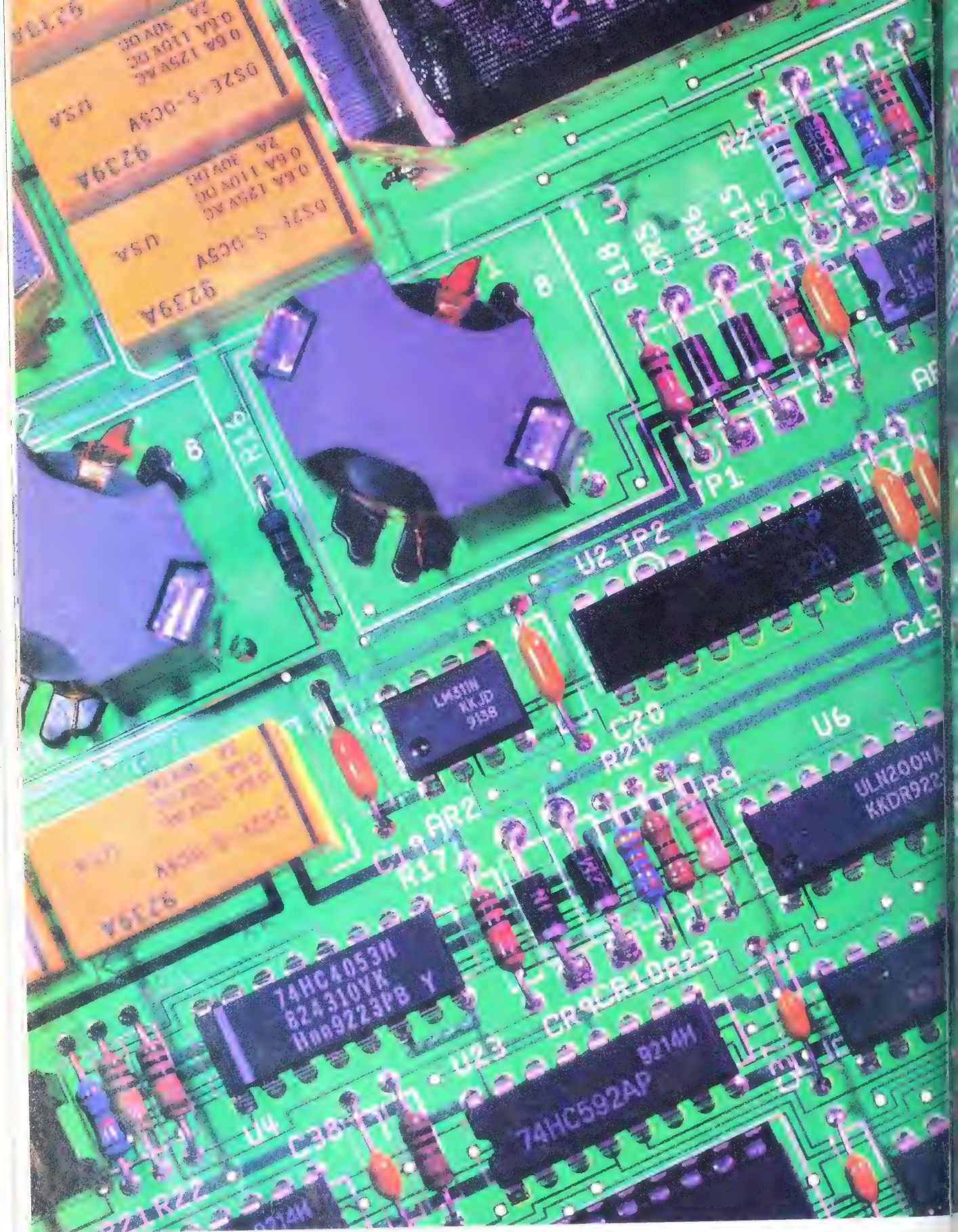
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# FRAMATOME

- **No. 1** nuclear power plant vendor in the world
- **No. 1** nuclear fuel manufacturer in the world
- **No. 1** in Europe and **No. 3** worldwide in connector manufacturing

Throughout the world, Framatome employees are displaying their talents. With commitment, they overcome technological challenges to bring your projects to life.

## GOOD RESULTS IN 1993

In 1993, Framatome's revenue reached FF 17 billion, versus FF 12.7 billion in 1992.

This increase of slightly over 33% is mainly attributed to revenue from recently acquired subsidiaries:

- the revenue of fuel manufacturing companies acquired in July 1992 were recorded for the full year,
- the acquisition of Jeumont Industrie in 1993,
- in the connector field, Daut + Rietz and Connectors Pontarlier were also acquired this past year.

The increase is also due to the invoicing of non-recurring contracts: the fuel transfer station and related systems for Superphenix (Framatome) and the European Transonic Windtunnel (ETW) test section, designed to simulate the flight conditions of large European commercial aircraft (NFM).

Net income after minority interests was FF 863 million. Its decrease compared to 1992 (FF 950 million) is explained by the following:

- in the connector field, the drastic worldwide decline of orders in the military and civil aviation industries,
- at Jeumont Industrie, the implementation of a necessary industrial restructuring plan has been costly, particularly in the electromechanical sector.

At the close of the 1993 financial year, the order book reached the same level as at year-end 1992. In the nuclear sector, it comprised four nuclear reactors in France and two nuclear islands in the People's Republic of China (Daya Bay). The first Daya Bay unit started commercial operation in February 1994 and the second, in May, to the entire satisfaction of our customer.

At the beginning of 1994, Framatome submitted an offer to the Taiwan Power Company (TPC) for the supply of two nuclear islands for the fourth Taiwanese nuclear power plant.

The acquisitions made or consolidated in 1993 are in line with the Group's strategic objectives that have been in effect for almost 10 years. The 1993 takeover of Jeumont Industrie, which manufactures reactor coolant pumps and control rod drive mechanisms, rounds out our expertise in the nuclear sector. The acquisition at the end of 1992 of Daut + Rietz (automotive) and in April 1993 of Connectors Pontarlier (telecommunications) strengthens FCI's potential in these two burgeoning sectors.

In addition, Framatome Connectors International (FCI) has been reorganized throughout the world into divisions, and the resulting profit is only starting to be felt in 1994.

Industrial investment and rationalization efforts undertaken in certain businesses in 1993 continue to bear fruit. They have already produced a significant recovery in results during the first quarter of 1994, particularly in the connector field.

### CONSOLIDATED FIGURES

| I - OPERATIONS                                       | 1993            | 1992           |
|------------------------------------------------------|-----------------|----------------|
| Consolidated revenue<br>(in millions of FF)          | 17,011          | 12,668         |
| Nuclear share                                        | 10,358<br>60.9% | 8,009<br>63.2% |
| II - NET INCOME<br>AND DISTRIBUTION                  | 1993            | 1992           |
| Corporate share of net income<br>(in millions of FF) | 863             | 950            |
| % of revenue                                         | 5.1%            | 7.5%           |
| Number of shares outstanding                         | 10,200,000      | 10,200,000     |
| Corporate share of net income<br>per share (in FF)   | 81.6            | 93.1           |
| Proposed dividend per share (in FF)                  | 39.00           | 46.50          |



## WORKERS MAY GET SCARCE, BUT NOBODY'S SCARED

et, slow workforce growth could spur productivity

y the time Sarah Pace's second child was born in May, the 32-year-old corporate lawyer had up her three-month maternity leave of pregnancy complications. Her law firm offered to give her an option if she would agree to a specific date. But Pace wasn't ready. With her lawyer husband earning to support the family, she quit. Planning to come back "at the point," she says. Just a question of

nearly 30 years, mothers like Pace flocked to work, steadily increasing the of the U.S. population that holds or wants a job in the past five years in the participation of women in the labor force leveled off (chart). The reasons include a rising birth rate, which keeps women at home, and a slowdown in the speed at which new mothers return to work. Beyond young women are staying in school longer. At the same time, the male participation rate, which has been drifting lower for years, has suddenly slowed to race downhill, reasons that aren't entirely clear.

**AGES LOOM.** These trends have ominous implications for the economy: a typical recovery, unemployment remains high at first as previously laid-off workers suddenly flood the market. Today, the absence of these laid-off workers largely explains why the unemployment rate has plunged to 6%, even as job growth, while improving, is slower than in prior recoveries. As a result, some economists believe the share of adults who want to work may have slowed permanently or stopped growing. Result: The labor shortage that popped up in the late 1980s could return with a

vengeance if the economy continues to grow.

Such shortages, oddly, might have a positive economic impact. True, companies would have to scramble to find qualified workers. But this likely wouldn't trigger inflationary wage hikes, many economists believe. After all, global competition remains stiff, and productivity has been climbing at nearly double the

anemic pace of the 1980s. Instead, labor shortfalls would likely spur employers to invest in more technology, not labor. This would keep efficiency growing and allow wages and living standards to rise again without making U.S. companies uncompetitive. "You would like to see wages go up if it doesn't push up prices, which can happen if productivity rises," says Martin N. Baily, an economist at the University of Maryland.

The central question is whether labor force growth really has slowed for the long term. Until recently, most economists assumed that the participation rate would chug along in the 1990s at roughly the same 0.3% annual increase recorded in the 1980s. Few even blinked when it fell in the recession, since many people leave the labor market—quit looking—when jobs dry up. But after three years of growth, the participation rate is no higher than its 1989 peak of 65.5%. This is prompting experts to rethink their assumptions.

The job-market behavior of women has attracted the most attention. After climbing eight percentage points in the 1970s and six points in the 1980s, the female participation rate has edged up less than one point since 1990, to 57.9% of all women last year, according to the Bureau of Labor Statistics (BLS).

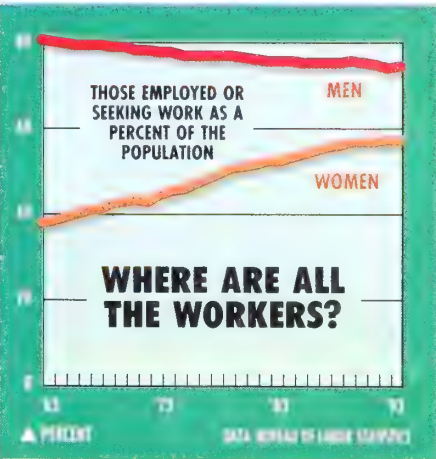
Some of the slowdown revolves around school. Because college graduates' pay has outpaced that of other employees, students have more incentive to keep on studying. That's just what women are doing. Only half of female teenagers want to work today, vs. about 53% in 1987,

according to the BLS. Meantime, their enrollment rate has jumped four points, to 64%. The same is true of 20- to 24-year-olds. "Young women aren't going home to take care of the kids, they're going to school," says BLS economist Howard Haythe.

Motherhood is the other main factor. The birth rate has jumped from 1.8 children per woman in the 1980s to nearly 2.1 since 1990. This has brought an extra 300,000 or so births a year. Result: More women are not working for three to six months, the length of maternity leaves. What's more, the Census Bureau has lifted its birth rate projection for the '90s from 1.85 to 2.1, which suggests



PACE AT HER CHICAGO HOME: SHE'S PUTTING OFF HER RETURN TO WORK







{ LEANING TOWER OF PISA, *Pisa, Italy* }

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## The Workplace

that more women will remain out of the workforce in the future.

Like Sarah Pace, more mothers may be less anxious to return to work. The Census doesn't ask women how long they take off for childbirth. But it does ask those with kids under a year whether they're working. And this year, now 54%, hasn't budged since 1990, after climbing two percentage points the year before. The higher birth rate also reflects the fact that more women are having two children. Only 50% of mothers return to work after their second child, vs. 59% after their first. "The trends affect the participation rate," Census analyst Martin O'Connell.

**STILL SEARCHING?** Why men are dropping out is more of a mystery. The rewards of a better education help explain why the share of 16- to 24-year-olds who want a job slumped by two percentage points since 1987, while the school enrollment jumped nearly two points, to 65%. But it's unclear why the participation rate of 25- to 54-year-olds, which slid by less than a point in the 1980s, has skidded by an additional two points since 1990, to 91.5% in 1992. Merrill Lynch & Co. economist Brian Steinberg suggests that many men have given up corporate restructurings have simply given up job hunting, at least temporarily. However, the BLS's monthly count of discouraged workers has remained about 500,000 since 1992.

Whatever the reason, employers will be scrambling for workers if men and women continue to stay out of the labor force. The flood of women and baby boomers kept labor plentiful for decades starting in the late 1960s. When interest rates soared in the 1970s, it came cheaper to hire workers than to make capital investments. This was the reason productivity growth slowed, because interest rates remained high. The equation didn't change much as labor shortages cropped up in the late 1990s.

Today, by contrast, the cost of capital is relatively low, a key reason for rising productivity. If labor now becomes scarce, employers will have a greater incentive to substitute capital for labor. "Usually, we get fast productivity growth early in a recovery, then it slows down," says Lehman Brothers Inc. chief economist Allen Sinai. "Labor shortages could keep it from slowing this time."

Worker scarcity isn't a pleasant prospect for employers. Still, if today's productivity revival continues over the long term, it may be the best thing to happen to U.S. living standards since the 1970s went into a slump two decades ago.

By Aaron Bernstein in New York

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## CHEMICAL

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### SCHEDULE OF EVENTS

|           |                   |              |                                             |
|-----------|-------------------|--------------|---------------------------------------------|
| July 18   | London, England   | August 16    | Panama, NJ                                  |
| July 19   | Stamford, CT      | August 18    | Paterson, NJ                                |
| July 26   | Martinez, NJ      | August 31    | New York City #3                            |
| July 27   | Long Island, NY   | September 1  | Atlanta, GA                                 |
| July 28   | Boston, MA        | September 21 | Los Angeles, CA                             |
| August 2  | Syracuse, NY      | September 22 | Dallas, TX                                  |
| August 4  | Chicago, IL       | October 8    | International Championship<br>New York City |
| August 11 | San Francisco, CA |              |                                             |

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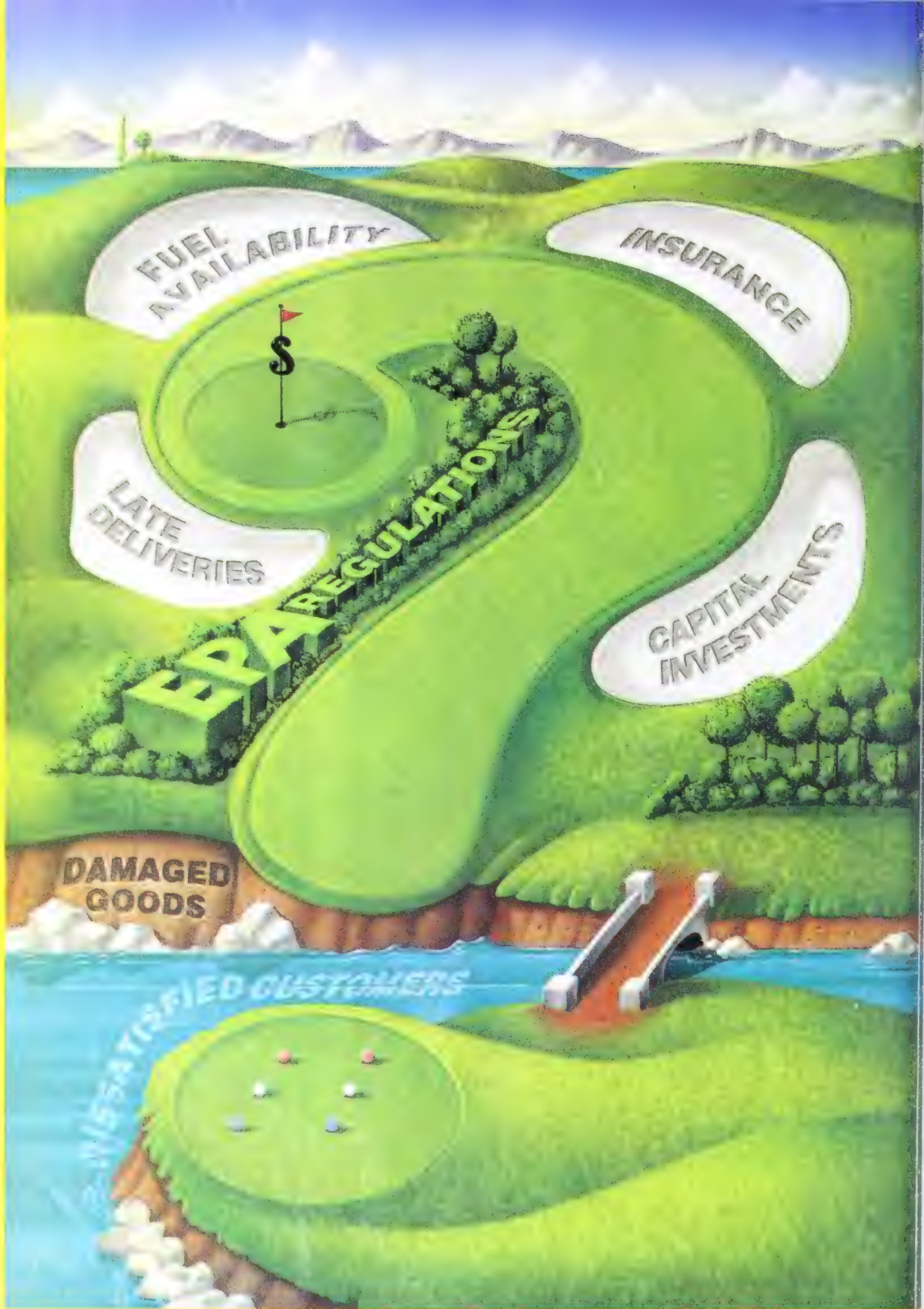
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## REARRANGING THE FURNITURE AT ETHAN ALLEN

The retailer has successfully moved beyond mahogany and chintz

**B**right purple chairs. Black leather sofas. Computer tables for the home office. Can this be Ethan Allen, that bastion of colonial credenzas and chintz couches? "It's not what you'd think of as classical Ethan Allen," admits Edward P. Schade, chief financial officer of Ethan Allen Interiors Inc.

That's exactly what Chief Executive M. Farooq Kathwari wants. Since leading a management buyout of the company in 1989, the reserved, 49-year-old native of Kashmir has refashioned the 284-outlet furniture seller to appeal to younger shoppers. He has remade the product line using modern styles, slashed prices as much as 15%, and even opened Ethan Allen stores in malls to reach yuppies where they shop.

It's working. Sales in stores open a year or more were up 20% for the three quarters ended Mar. 31. When Ethan Allen closes the books on its fiscal year ended June 30, analyst John Stanley of Dillon, Read & Co. expects net income to jump by \$40 million, to \$23 million. That would end four years of losses as the new owners restructured the business (chart). The chain, which is No. 2 to Levitz Furniture Corp. in U.S. furniture sales, should report about \$440 million in sales, up 14% from 1993. Fully 70% of revenues will be from furniture styles launched in the past three years.

**"STRONG MARKET."** The overhaul has put Allen in a position to benefit from the turnaround that's shaping up in the home-furnishing industry. Following the jump in home sales that began in the second half of 1993, the next couple of years should be good ones for the industry, says David Dwyer, an analyst at Kidder, Peabody & Co. Furniture sales typically lag house sales by a little more

than a year. A rebound would be welcome news for furniture retailers, nearly 11,000 of whom have closed their doors since the boom days of the late 1980s. "We think we're in the beginning phase of a 5-to-10-year strong market," says Roy B. Goodman, secretary of Heilig-Meyers Co., a retailer in Richmond, Va.

Kathwari's strategy was predicated on the industry's turning around. Man-



**KATHWARI: BUYERS WANT COMFORTABLE, COLORFUL, ECLECTIC, AND CASUAL STUFF**

agement had little else going for it after acquiring the chain from Interco Inc. Sales were stagnant. Most Ethan Allen shoppers were over 40; the conservative styles were anathema to the twenty- and thirtysomethings who are the heart of the home-buying market. "We had to change this company from top to bottom," Kathwari says.

Kathwari, an MBA from New York

University who immigrated to the U.S. 30 years ago, was in a position to take Ethan Allen's problems. He began doing business with the company in 1980 when he started a joint venture to sell lighting and other fixtures to its stores. Ethan Allen bought the venture in 1980; Kathwari rose to president in 1985 and became CEO in 1988.

Kathwari moved swiftly after the buyout, closing 7 inefficient plants and 23 underperforming stores. In tandem with Grey Advertising Inc., the New York-based agency, he began examining what buyers wanted. They learned that consumers desired the same qualities in their furniture as in the apparel they were buying from such stores as Gap and The Limited—colorful, eclectic, casual, comfortable.

**DIGITIZING DECORS.** The finding led to four new styles: American Impressions, a mix of sturdy wood pieces inspired by Shaker designs; Country Crossing, a rustic line of maple furniture; American Dimensions, a modern look that accents geometric shapes; and Legacy, which borrows styles from Italian architecture. Another line, dubbed Radius, featuring sleek designs reminiscent of the 1960s, will debut in 1995.

To get consumers into stores, Ethan Allen is stepping up advertising. The chain is spending \$48 million this year, up from \$35 million in 1990. The slogan: "Everyone's at home with Ethan Allen." Kathwari is also having the shops' window-cased facades remodeled. New art-deco fronts are placed at 100 stores, and there are up as much as 20%.

Kathwari wants to have all new storefronts by the end of 1995. He has also put PCs in each store that allow consumers to mix upholstery patterns with different sofas and other furniture in a computer simulation.

Now that Ethan Allen has remade itself, Kathwari wants to expand. He's opening 15 stores this year, including ventures overseas into Japan, Korea, and Mexico. He expects to add a further 20 in 1995. And Kathwari wants large stores, some as big as 20,000 square feet, to handle the new lines. Those lines are to be revolutionary for the company—then, so was the guy they named it after.

By Chris Roush in Danbury, Ct.





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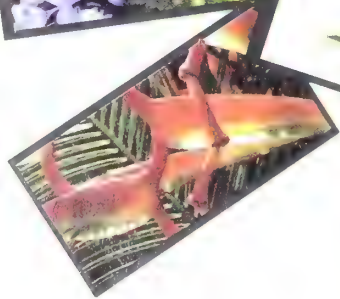
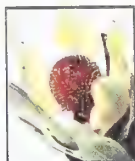
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## A NEW EMPIRE RISES NORTH OF THE BORDER

Canada's Peter Munk is out to create a continentwide colossus

**T**he past couple of years haven't exactly been kind to Canada's empire-builders. In 1992, the Reichmanns' highly leveraged Olympia & York Developments Ltd. crashed into bankruptcy. Then last year, Peter F. and Edward M. Bronfman, who dabbled in everything from brewing to mining, stumbled as their markets also slumped.

Yet such traumas show little sign of

sure of corporate prestige. Both former Canadian Prime Minister Brian Mulroney and former Bundesbank chief Karl-Otto Pöhl are Horsham directors.

Now, Munk hopes to transform Horsham into one of North America's biggest real estate players. On July 5-6, investors in Trizec Corp. will vote on a \$732 million bid from a Horsham-led investor group to acquire 68.5% of the bankrupt real es-

now 66, has a knack for squeezing value from unlikely places. He Southern Pacific Hotel Corp. into a chain in the South Pacific in the 1970s. Then he founded American Barrick in 1983 at a time when gold prices slumped. Using strict cost controls and modern mining technology, Munk transformed the company into one of North America's most profitable gold miners. In 1987, he founded Horsham. The aim was to use the wealth created by gold to venture into other potential turnaround situations. **TRIZEC'S TROPHIES.** Problem is, Horsham's other interests haven't duplicated American Barrick's success so far. Horsham acquired 60% of the bankrupt Clark Refining & Marketing Inc. in 1988. It went down because of smaller refining margins. In 1990, he launched Horsham Properties to develop commercial properties

in Germany. But the downturn in the German economy slowed new office demand. Horsham's first project: a 600-acre office and industrial complex near Berlin.

Still, Horsham's Munk argues that he paid a low bottom price for his investments and it may take a while before the business picks up. He has seen the problems of the Reichmanns' and the Bronfmans, Munk says. He knows the perils of over-leverage. That doesn't mean Horsham's balance sheet isn't leveraged. Horsham has \$1.1 billion in debt. And its long-term debt is a percent of capitalization: 66%; 55% is typical for many companies. A \$600 million of the debt came from low-interest debentures issued in December in anticipation of new acquisitions. By paying bondholders the right to exchange their debt shares in American Barrick, Horsham wra-



### HORSHAM'S HOLDINGS

#### AMERICAN BARRICK RESOURCES

With a 20% stake, Horsham has controlling interest in successful Toronto-based gold miner.

**1993 earnings:** \$213.4 million (+22%)

**Revenue:** \$680.6 million (+23%)

#### CLARK REFINING & MARKETING

St. Louis-based refiner, with 850 gas stations in the Midwest, is struggling because of slumping margins.

**1993 earnings:** \$2.8 million (NM)

**Revenue:** \$2.3 billion (unchanged)

#### HORSHAM PROPERTIES

Founded in 1990, German company wants to develop commercial properties. Its first project: a 600-acre office and industrial park in Berlin.

**1993 results:** NA

#### TRIZEC

Horsham has tentative deal to acquire 44.5% of bankrupt Calgary-based real estate company, one of the biggest in North America, with \$4 billion in assets.

**1993\* loss:** \$225 million (NM)

**Revenue:** \$749 million (+14%)

\*Fiscal year ended Oct. 31 NM: Not Meaningful NA: Not Available  
DATA: COMPANY REPORTS, BUSINESS WEEK

curbing the ambitions of Peter Munk, chief executive of Horsham Corp. Canada's newest empire-creator has been expanding his Toronto-based holding company into a diversified giant. Building on a 20% stake in gold-mining company American Barrick Resources Corp., Munk has extended Horsham's reach into oil refining and German real estate. Along the way, Horsham has gained a mea-

tate giant. The Calgary-based company—once controlled, ironically, by the Bronfmans and Reichmanns—owns and manages 85 office buildings and shopping centers from San Francisco to Montreal, worth about \$4 billion. "If we combine our financial credibility and global vision with Trizec's real estate expertise, I think we can do great things," says Munk.

That's high-flown, of course. But Munk,

an annual interest of just 3.25%, less than half the current prime rate of 7.25%.

For now, Horsham's shareholders are willing to wait. After climbing 65% last year to just above 15, Horsham's stock has been flat this year, at about 14¢, analyst Marc Cohen of Kidder, Peabody & Co. estimates that Horsham's earnings could double this year, to \$79.5 million, thanks to productivity gains at Clark



re reckons Horsham's assets are \$20 a share. "The parts of Horsham add up to a great deal more than the whole," says William Spears, chairman of Spears, Benzak, Salomon & Farber, a New York money management firm that owns 6% of Horsham's stock. Horsham's companies gain momentum as its stock will start climbing, Spears says. Munk hopes so, too. He owns Horsham's common stock and controls 1% of its voting shares.

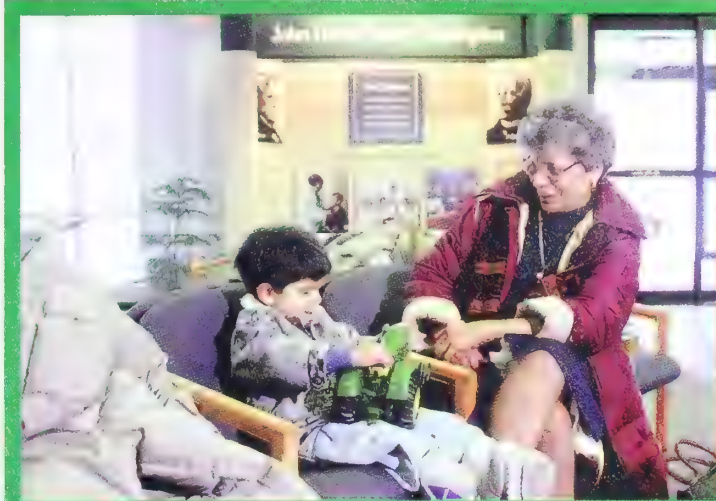
Deere could be key to Horsham's resurgence. Once the biggest publicly traded estate company in North America, Horsham's fortunes have sagged along with the real estate market. It was forced to write off its more than \$500 million investment in bankrupt Canadian development company, malea Ltd. And by 1993, with its income depressed, it was unable to service its debt. Trizec entered a court-supervised debt renegotiation in August of last August.

Munk is convinced that Trizec's luster will be restored. Its portfolio is chock full of high-value properties, such as the sprawling Hensley Center office complex in Houston. And Trizec's buildings have low vacancies: 11% of its office space is vacant, compared with a North American average of over 15%.

**THE DEAL.** Under the proposed deal, Horsham and its U.S. partners—Morgan & Co. and O'Connor Group, a real estate investment firm—would inject \$732 million into Trizec. Investors would then swap \$1.4 billion in debt for equity. That would still leave Horsham with \$2.4 billion in debt. But the deal could reduce its annual interest expense by about a third, to some \$150 million. The result: a positive cash flow of \$1 billion in its first year. Horsham is injecting about \$475 million to the deal for a controlling 44.5% stake in Trizec, the company's biggest creditors tentatively agreed Munk's offer in June. But some of the company's smaller, unsecured creditors are balking at the deal. Still, Munk believes that Horsham will prevail.

Sperry, a managing director at Bank of Switzerland and chairman of the senior creditors' steering committee, says the big debtholders could seize control and cut a deal with Horsham if the deal plan is voted down.

Even if the deal goes through, Munk says he won't see quick riches. It may still take five to seven years before the real estate market fully recovers. In the meantime, he is trying to build his other assets. Clark is negotiating with Munk to buy its Port Arthur (Tex.) refinery—a deal that could double its capacity. The way Horsham's chief negotiator sees it, the key to modern empire-building is patient growth—and lots of patience. *By William C. Symonds in Toronto*



AT DEERE'S MOBILE CLINIC, LIKE THE HMO, WHICH SERVES EMPLOYEES OF 300 OTHER COMPANIES, THE CLINICS MAY SOON BE OPEN TO PATIENTS WHO DON'T WORK FOR DEERE

## DEERE'S SURPRISING HARVEST IN HEALTH CARE

It's building on a successful HMO with a chain of clinics

**E**xecutives at Deere & Co. had a novel plan back in 1985. Concerned about runaway health-care costs, Deere founded its own health-maintenance organization. The company hoped that its Heritage National Healthplan could control spending while still providing adequate services to employees.

As it turned out, Deere's HMO proved far more successful than executives at the company's Moline (Ill.) headquarters ever imagined. Besides putting the brakes on costs, it was a hit with Deere employees. Before long, Deere even began selling its HMO service to other companies. Today, only 22% of the HMO's 290,000 members have any relation to the agricultural-equipment manufacturer. Most work at 300 other client companies, including Chrysler, Eastman Chemical, and Woolworth.

Now, Deere is building on its surprising success in health care. In early 1993, the company opened a primary-care clinic in Moline. The facility, built in partnership with the Mayo Clinic of Rochester, Minn., treats patients on site rather than passing them on to more costly specialists. Two other clinics are scheduled to open on July 1 in Des Moines and Waterloo, Iowa. The clinics, which are run by Mayo administrators,

will eventually serve 11,600 Deere employees.

Pushing further into health care in this era of sweeping reform may seem a bit ill timed. But Deere believes that the benefits are well worth the risk. Thanks to services offered through John Deere Health Care Inc., the subsidiary that oversees Deere's health ventures, the company reckons that its annual health-care costs increased 11% a year since 1985 instead of the 13% that the company had anticipated. What's more, the health-care unit doesn't depend on any corporate subsidies. Its profits rose 43% last year, to \$11.2 million, as revenues climbed 19%, to \$388.6 million.

**PHONE PROMPTING.** One reason for Deere's success: It's applying the same cost and quality standards to its health-care facilities that it does at its tractor plants. For example, a team of Deere and Mayo staffers are developing standard procedures to treat 20 common

illnesses, including heart disease, lower back problems, and depression. By standardizing patient care, Deere hopes to eliminate duplicate tests and treatments. In the past, for instance, people who needed back surgery had both magnetic resonance imaging and a CAT scan, even





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## WHY THE LAST ONE IN IS ALWAYS A ROTTEN EGG.

The A.C. Gilbert Company was never big, but it was important. Their American Flyer trains and Erector sets brought fathers and sons together for generations. Success, however, has a dark side; it begs you to please stand still. And perhaps that's why, in the early 1960s, A.C. Gilbert chose to ignore a new force in toy marketing: television advertising. Within a few short years, splashy, fad-creating TV campaigns were changing a lot more than consumer preferences. They were affecting how toy manufacturers developed their products, managed their inventories — and even how they related to retailers. Meanwhile, the A.C. Gilbert Company was bleeding. Fiddling with their product line. Firing executives. And waiting. Finally in 1965, just dollars away from insolvency, they took to the networks with a vengeance. It was too late.



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the tests were very similar. says, patients just receive an MRI. message from manufacturing is right the first time," says Richard Bell, president of Deere's health-

nit. re is also encouraging clinic em- s to meet regularly to come up ways to save money, just as it calls rly workers at its factories to re- ssembly-line methods. One recent tion suggested by a group of clin- ers: calling patients to urge them preventive-care programs at the Last year, for example, the clinic sure that 80% of its expectant rs got prenatal care during the

ality is a priority at the ics: Doctors are graded rterly by their patients

first three months of pregnancy. 5% of its diabetic patients, who en prone to vision problems, got exams. "If we screen people up says Van Bell, "we can improve s health status before things get

**ROOM RELIEF.** Despite the em- on costs, quality is also a big pri- t the clinic, according to Van Bell, er human-resources executive and ear veteran of Deere. Doctors, for ce, are graded quarterly by their s. Their performance reviews are d to the point that they include ck from patients about their bed- nanner. And the average wait for ointment is kept to 15 minutes. s HMO pays similar attention to . And many of its corporate cus- seem satisfied. "They try to man- alth care, not just costs," says F. ohnson, benefits manager for East- hemical Corp. About three out of four of the Kingsport (Tenn.)- mpany's 11,000 employees be- Deere's HMO.

l goes well, Bell says, Deere will even more clinics in the years . If so, Deere's clinics may start ng as fast as its HMO, which re- expanded into its fifth state, Vir- and started taking on Medicaid ts in Iowa and Tennessee. That f success certainly has Deere's happy. "Saving dollars on health n translates into higher wages," says ecker, a United Auto Workers l who sits on the board of ge. Substitute "profits" for s" and you have Deere's philoso- ctically.

By Kevin Kelly in Moline, Ill.

# Industries

AUTOS

## MOTOWN'S STRUGGLE TO SHIFT ON THE FLY

It still takes too much time to retool factories for new models



FORD'S KANSAS CITY (MO.) PLANT IS IN THE MIDST OF A TWO-MONTH CHANGEOVER

**T**he tortured launch of the 1995 Chevrolet Lumina couldn't have been more poorly timed for GM: In the midst of the strongest auto market in years, the Oshawa (Ont.) factory that makes General Motors Corp.'s No. 3 best-seller was shut for three months starting last November, while workers installed new welding robots and other machinery to build the revised model. The factory started up again on Feb. 14—slowly. Oshawa made just 10 cars a day and, to keep things simple, painted all of them white. By Apr. 1, it had built a total of 288 cars.

The plant won't reach its full line speed of 60 cars an hour until August, though its palette has expanded to 7 of the 10 colors it will produce. The pain can be measured in lost greenbacks. Chevy's sales this year are up a scant 4%, less than half the industry average. The main culprit is the Lumina, whose sales are down 61%. And that's not GM's only nightmare. Production of the new Oldsmobile Aurora and Buick Riviera is starting slowly, to maintain quality. And

shortly, GM's Lordstown (Ohio) plant will shut for a monthlong change for the Cavalier, Chevy's No. 1 model. Says Daniel Blaskovich, general manager of Tom Blaskovich Chevrolet-Oldsmobile Inc. in East Chicago, Ind.: "I'm afraid we'll lose four months of sales with it, too."

Over the past decade, Detroit has made huge strides in cutting costs and improving quality. But in one respect, the Big Three are still miles behind the Japanese: They take forever to change over for new models. Ford Motor Co.'s Kansas City (Mo.) factory is down for two months right now to switch to the new Ford Contour and Mercury Mystique. And Chrysler Corp. has yet to hit full output on its subcompact Neon—more than six months after production began. At Honda Motor Co.'s Marysville (Ohio) assembly plant, by contrast, the final 1993 Accord rolled off the line on Friday, Aug. 27. Production of the all-new 1994 model began the next Monday. And the factory reached full speed of 48 cars an hour within six weeks.

To be sure, some downtime is often



inevitable. That's especially true as the Big Three retool passenger-car plants to meet surging demand for minivans, pickups, and sport-utility vehicles. Yet Detroit is slower than Japanese makers even when the models are comparable (chart). The result is as damaging as a strike: When sales are booming, as they are now, every month that a plant is shut costs between \$65 million and \$85 million in pretax profits, estimates Morgan Stanley & Co. analyst Scott F. Merlis. And delays take the oomph out of

being put in place," says plant manager Steve Yoder. Even as the old line ran, Honda made prototype new models by shunting them onto the new equipment, as if in a railroad switch yard.

GM's Oshawa plant didn't have that option. The body shop, where a car's frame is welded together, is at the heart of a model changeover. Although Oshawa was one of many GM factories refurbished in the 1980s, most of the money was spent on its stamping facilities—where sheet-metal parts are formed. The

and holidays, Ford began removing old piece of equipment at a time replacing each with another one flexible enough to build both the old and new model. As a result, Ford thinks it can make the switch with just a three-week shutdown next summer—two weeks which are scheduled during the companywide vacation in July.

Eventually, GM's 27 assembly plants should be better at changeovers, too. New body-shop machinery at Oshawa is reprogrammable. And by converting

## DETROIT'S ACHILLES' HEEL

U.S. carmakers still lag far behind their Japanese rivals in changing over their factories to produce a new model



marketing blitzes—because dealers don't have cars when customers show up: Jim Muir Oldsmobile-GMC Truck Inc. in Sterling Heights, Mich., has received only four new Auroras, even though it has customer orders for 14.

Belatedly, the Big Three are trying to adapt. "We can't afford three-, four-, or five-month downtimes for model conversions if we're running at lean capacity," says G. Richard Wagoner Jr., the new president of GM's North American Operations. The industry's new goal: two weeks at most to launch a model. "It's one of the things we're working aggressively to change," adds GM President and CEO John F. Smith Jr.

**FLEXIBLE ROBOTS.** It isn't rocket science, after all. "The key is planning, pure and simple," says Alex Warren, senior vice-president at Toyota Motor Manufacturing USA Inc. in Georgetown, Ky. To start, Toyota and other Japanese auto companies make new-car designs as compatible as possible with existing equipment. To make that easier, they tend to use more flexible automation—such as welding robots that can be reprogrammed. And their factories have extra space beside the assembly line, so that new gear can be tested well before it's needed.

At Marysville, Honda began debugging the 1994 model Accord's machinery a year before the production changeover. More was added over Christmas of 1992, and then "about every weekend until July, something was

body shop was left with heavy, inflexible robots for welding and frame-positioning that had to be torn out for the Lumina's major redesign. The scheduled three-month closing was bad enough, but then unforeseen glitches slowed the production ramp-up. Chevy belatedly redid the instrument panel after consumers in focus groups disliked it. The Japanese avoid such last-minute tinkering: They would wait until next year to change it.

There are signs Detroit is catching on. Chrysler's Windsor (Ont.) minivan factory doesn't have extra room to install new welding gear, but an unused former engine plant is right next door. So Chrysler is setting up a body shop there for next summer's minivan launch. By 1997, vows Dennis K. Pawley, Chrysler's executive vice-president for manufacturing, "there won't be a plant in the system where I couldn't bring in another car or truck in two or three weeks."

Ford also is starting earlier. In planning for a 1996 model, managers realized it would take 14 weeks to replace the tooling—for an all-new, high-volume car. Adding a body shop nearby was impossible, so last year, over long weekends

to lean-manufacturing methods, which slash inventory, Oshawa has freed factory space—as much as 45% in some areas. Once they adapt to faster turnaround, American auto plants should be flexible enough to produce several different cars on the same production line. E. Michael Mutchler, GM vice-president and general executive for North American passenger car platforms, wants all his factories to hit their two-week changeover target by the year 2000.

In the old days, Detroit might well have yielded to a quick fix—cranking up production regardless of the effect on quality. But the Big Three know that won't work. "If the first 2,500 units are poor quality, you sacrifice thousands of sales later," says analyst Ronald Glantz of Dean Witter Reynolds Inc. In Detroit, a fundamental shift,

### LESSONS FOR THE BIG THREE

**CAR DESIGN** Insist that engineers adapt their designs to a plant's capabilities

**ADVANCE PLANNING** Leave open areas next to the assembly line to install and test new equipment even while the old model is still being built

**FLEXIBLE EQUIPMENT** Use "soft" automation, such as welding robots, that can be reprogrammed for new models

David E. Cole, director of the Office of the Study of Automotive Transportation at the University of Michigan. "It's a new discipline on quality," he says. With a little luck, Detroit may master rapid changeovers by the time the next boom arrives.

By James B. Treece in Detroit

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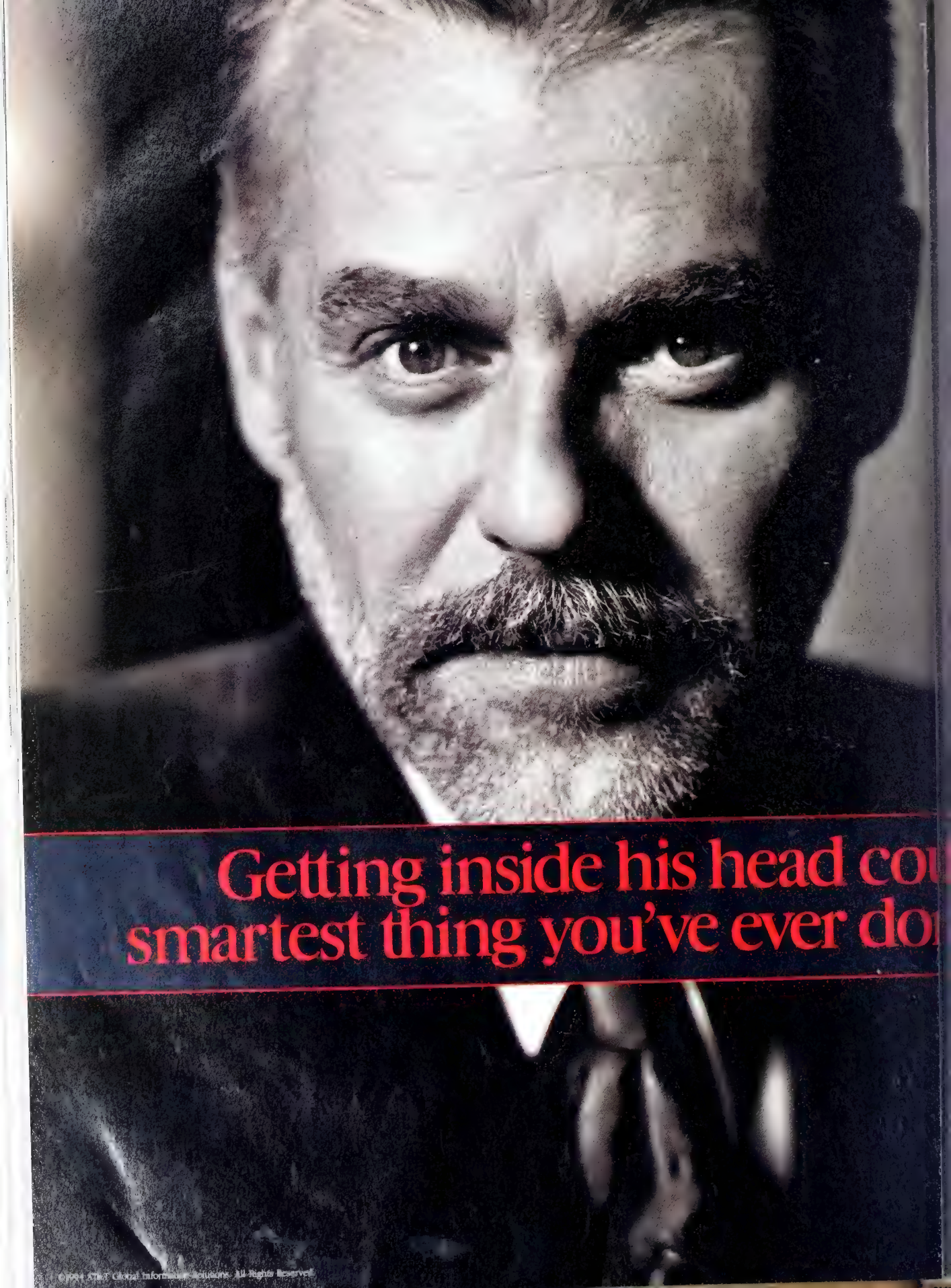


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# Cover Story

**F**oreign insurers such as Toyota Motor Insurance Co. and Australian Mutual Provident Society have set up shop in Iowa. State Insurance Commissioner David J. Lyons travels regularly overseas, searching for more prospects, and insurance training programs have been arranged at community colleges. The result: Des Moines is now home to 200 insurance companies employing some 21,000 people.

Cleveland is no longer a nationwide joke. New entertainment, shopping, and office developments have altered its skyline. City officials from around the country now visit Cleveland for guidance on urban revival.

Wabash National Corp., a truck-trailer manufacturer was born from the rubble of the Rust Belt. Founder Donald J. Ehrlich bought some

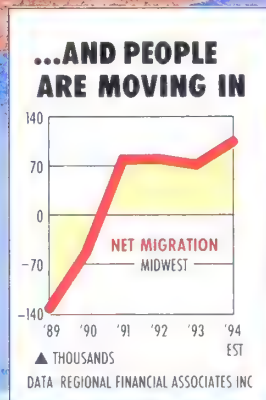
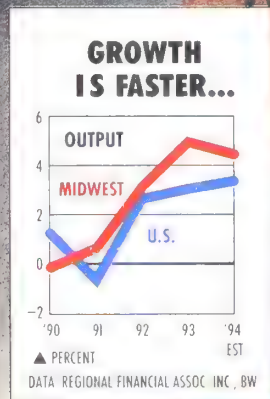
of his equipment used from bankrupt Midwest companies in 1985 and moved into a vacant factory in Lafayette, Ind. He parlayed a highly trained workforce and just-in-time manufacturing into industry leadership and \$15.5 million in earnings on sales of \$360 million last year.

Welcome to the new Midwest. Hampered by foreign competition during the 1980s, and left for dead only five years ago, America's heartland is booming.

The region's revival is not just a brief upturn from the depths of disaster or a temporary boon from a declining dollar. The Midwest economy—stretching from Ohio to Iowa—has transformed itself. Its manufacturers, typified by Detroit's Big Three

auto makers, have turned the tables on foreign rivals with world-beating products. More and more companies are coming into the global economy. Today, Midwest states can trace one in six manufacturing jobs to export-related work, up significantly from the early 1980s.

The region now owes as much to computer chips, health care, and financial services as it does to the smokes. High-tech entrepreneurship is on the rise, too. Small software and biotechnology outfits have set up shop at state universities in Ann Arbor, Mich.; Urbana, Ill.; and Madison, Wis. Towns such as Kenosha, Wis., and Flint, Mich.



# AMERICA'S

## The Midwest's New Role



ated during the 1980s when auto scaled back and laid off thou- are growing again. Says Alan G. y, a Canadian and chief execu- Harris Bankcorp Inc. in Chicago: Midwest represents the greatest for economic growth and vitality e 21st century."

ot just the private sector that is oing dramatic change. The Mid- at the forefront in battling scler- reaucracies to create more entre- rial, responsive governments. such as Indianapolis' Stephen ith and Milwaukee's John O. Nor- r governors such as Michigan's

John Engler and Wisconsin's Tommy G. Thompson are experimenting with such corporate concepts as total quality management, reengineering, customer service, and injecting competition into public services. "The transformation of the private sector has spread to the public sector," says Norquist, a disciple of management guru Peter Drucker.

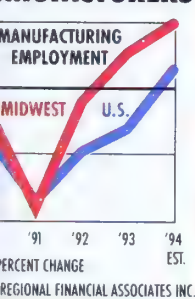
**SWELLING POPULATION.** Indeed, having experienced the slaughter of the early 1980s, worries about future jobs are behind most of the government reform efforts. The era of revenue sharing with the federal government is mostly over, and the middle class is fed up with high taxes. More important, business in the high-tech age is more mobile than ever. Thus, key to

sustaining the long-term strength of the region is government that is efficient and attuned to the needs of the local economy. "States are still the important engines in domestic policy," says Peter K. Eisinger, director of the University of Wisconsin's Robert M. LaFollette Institute of Public Affairs. "Everyone is closely watching the Midwest experiments."

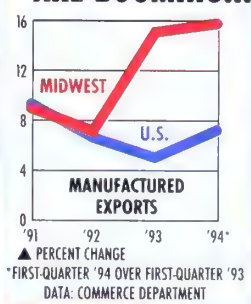
Right now, the Midwest economy is outpacing the rest of the country. In 1993, the Midwest grew at a 4.9% annual rate vs. 3% for the nation as a whole. For 1994, the figures could be 4.3% and 3.3%. What's more, Midwest exports are rising twice as fast as those from the rest of the U.S. Manufacturing employment has been far stronger than in the nation as a whole. And the region's population should swell by 103,000 this year, compared with a net loss of 134,000 in 1989 (charts).

These gains put the

### ...INCLUDING MANUFACTURERS



### EXPORTS ARE BOOMING...



### ...AND SO IS FINANCE



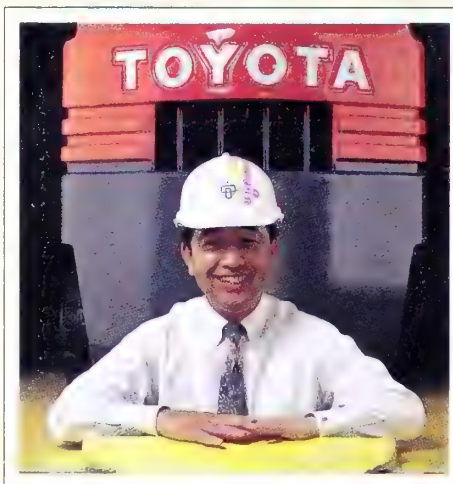
# HEARTLAND

## the Global Economy





**INDUSTRY** Allen-Bradley, the factory-automation manufacturer, built several state-of-the-art assembly lines in the Midwest. President Katoh's Toyota Industrial, a maker of forklifts, now employs 285 workers in Columbus, Ind. Why tiny Columbus? To be closer to suppliers and the company's dealer network



Midwest in the same league as other high-flying parts of the country. Along the I-85 corridor in the Southeast, manufacturing industries are expanding at an impressive rate. Out west, the Mountain states are enjoying a boom largely fueled by thriving high-tech companies and an influx of people fleeing California's recession and deteriorating quality of life.

Still, the Midwest holds much of the economy's firepower, and its fortunes have a disproportionate impact on the U.S. economy. For one thing, the heartland accounts for 44% of the nation's output in cars, 28% of trucks, and 33% of steel, according to the Federal Reserve Bank of Chicago. For another, the re-

gion's 54 million people is 50% more than the population of the Mountain states and I-85 states combined. An export juggernaut, the Midwest shipped abroad \$28 billion worth of goods, vs. \$21 billion that the Southeast and Mountain states together exported in the first quarter of this year. And the Midwest should grow at a 4% annual rate over the next two years, roughly comparable to the pace in the Southeast and Mountain states, calculates Mark Zandi, chief economist at Regional Financial Associates Inc., consultants based in West Chester, Pa. "The Midwest economy has made enormous strides in world competitiveness," says Zandi.

The region has become a powerful

magnet for job seekers. In 1994, more companies transferred employees to the Midwest than any other region, according to Runzheimer International Corp., a corporate relocation adviser. New York marketing consultant Marian Salzman, who studies the twentysomething generation, says cities such as Chicago, Indianapolis, and Columbus, Ohio, are now desirable destinations for college graduates looking for well-paid and low-cost housing. In 1993, westerners made up only 10% of the graduating class at Northwestern University's Kellogg Graduate School of Management, but 50% of the class opted for jobs in the Midwest. Says William T. Keenan, a transplant from New York City and president of Mid-America Corp., a Des Moines publisher: "As people look for good schools and a good quality of life, certain parts of the country benefit. The Midwest is one of them."

**AN OVERHAUL.** To be sure, the Midwest revival isn't everywhere and isn't shared by everybody. Detroit struggles with crime and inner-city poverty, even as new Mayor Dennis Archer tries to attract business reinvestment to the city. In Chicago, the region's biggest city, Mayor Richard M. Daley is trying to overhaul an abysmal public school system and stem the drain by stepping up public safety and upgrading public services. In several Midwestern states, such as Illinois and Minnesota, taxes are still relatively high. The recent rise in interest rates is slowing auto sales, which will moderate growth in the region.

Moreover, for many of those who have found new jobs, pay is often half the \$15 an hour that many Midwest companies paid a decade ago. Despite strong growth, income inequality is widening, and the ranks of the working poor are swelling. And labor relations can explode into an atmosphere of mistrust and recrimination. Caterpillar Inc.'s embittered workers walked off the job on June 21—the second major strike in two and a half years.

Yet to imagine the Midwest, even a few years ago, as a hub of industrial



tiveness, entrepreneurial verve, any innovation would have been able. The domestic auto makers will losing market share to for- and Chrysler Corp. was flir- a disaster. Antiquated manage- and labor practices continued to ave trouble for the machinery, tation, and metalworking indus- at account for two-thirds of the manufacturing output. But the "made the whole Midwest look" recalls Wisconsin Governor on, who was elected in 1986. "We wn so low, we had to pull our- p."

Midwest resurgence can be part- ined by the coincidence of tim- Midwest surged ahead even as coasts sank. The region largely the real estate boom and bust defense-related woes that have California and much of the st. The Midwest also skirted the legal and illegal immigrant

that has roiled a, New York, and postal states dur- past several years. E. At the same e dramatic fall in ar from the lofty eached during the nd middle 1980s d new life into manufacturing. B. Schacht, chief e of Cummins En- in Columbus, Ind., J.S. industry now % cost advantage rman rivals and tain an edge over long as the dollar elow 115 yen. It ntly hovering be-

uch of the region's has to do with straight-ahead hard -born of what lo- ans cite as the re- n-do pragmatism. the 1981-82 reces- ustrial companies Deere, Chrysler, Chemical slashed ion jobs to cut en, manufacturers med labor rela- en burying years ntng to tap the e of factory work- lp boost efficiency. companies also productivity by into capital equip- % more than did n industry as a

whole during the late 1980s. Now, a decade after flirting with bankruptcy, Harley-Davidson Inc., the Milwaukee motorcycle maker, has cut short its traditional summer shutdown to meet roaring worldwide demand.

Of course, corporations all across the country have been restructuring and re-engineering, stressing total quality management, and investing heavily in new technologies. But Midwestern heavy industry was first to be battered by international competition, especially from the Japanese juggernaut. The Midwest responded by becoming far less insular. The search for customers sent scores of domestic companies overseas, even as foreign companies invested heavily in the area. Chicago became more than ever an international entrepôt for financial innovation and influence in the expanding universe of futures and options centered at the Chicago Board of Trade and Chicago Mercantile Exchange. On these exchanges, more than one

top firm in five comes from abroad.

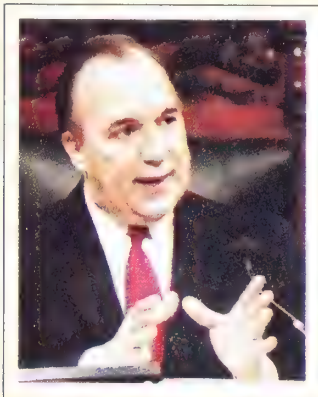
State and local governments played an important role in the region's rebirth. The Midwest has been in the forefront of worker training programs. Almost every state established manufacturing extension services to diffuse to small and midsize companies the latest techniques and organizational ideas. Many states in the region used public funds to seed startups. State officials traveled often to Europe and Asia promoting exports and soliciting investment. "The efforts born out of desperation in the 1980s—the experiments with public and private partnerships—were very important to the economic turnaround," says Ann Markusen, economist at Rutgers University.

**A NEW ATTITUDE.** Deere has used \$1.4 million in Illinois state grants over the past two years in a campaign to train suppliers to the farm-equipment company. Some \$5.1 million in training grants from Indiana were crucial in persuading Cummins Engine to reopen a shuttered diesel plant two years ago. Sue Krukonis, an ebullient native of Dubuque, Iowa, combined \$200,000 in state venture funds with \$1.8 million in private capital to realize a dream: returning to the Midwest after a 15-year career selling hair-care products on the East Coast and starting her own company. On July 4, Krukonis celebrates the first anniversary of her homecoming and the beginning of Anasazia Exclusive Salon Products Inc. "In the '70s and '80s, I didn't see any opportunity to grow in the Midwest," she says. "The whole attitude has changed."

This pro-business approach, although not unique to the Midwest, is nonetheless a departure from the sometimes rocky relations that came before. In 1985, a bedrock Wisconsin company, Kimberly-Clark Corp., infuriated by the tax and labor climate, closed its headquarters in Neenah and moved to Irving, Tex. Yet today, the consumer-products giant has 1,800 more workers in Wisconsin than the day it shuttered its headquarters and a brand-new \$100 million plant making



**GOVERNMENT** Indianapolis Mayor Goldsmith (above), Michigan Governor Engler (below, left), and Milwaukee Mayor Norquist are among Midwestern leaders who are shaking up bureaucracies and working to make government more innovative and responsive





feminine-care items. What happened? Hard selling and tax-cutting led by Governor Thompson, explains Kimberly CEO Wayne R. Sanders. Compared with the rest of the country, the Midwest is far more advanced in its methodical, strategic approach to planning, says the University of Wisconsin's Eisinger.

Still, all the public support in the world might have come to naught if the auto industry hadn't gotten its act together. Chrysler cut \$4 billion from its cost structure in three years, and it now has lower costs than its U.S. and Japanese rivals, according to a recent study by Harbour & Associates Inc., a Troy (Mich.) consultant. All three domestic carmakers have

in Minneapolis are conquering markets with exports of their high-tech wares to the Far East and Europe. Cleveland's Health-Mor Inc., a \$100 million maker of high-priced Filter Queen vacuum cleaners and metal components for a variety of products, sells its vacuums in 42 countries, including Japan.

**BIG PAYOFF.** Typical is Allen-Bradley Co. In the late 1980s, the 91-year-old manufacturer, a unit of Rockwell International, was being pounded by more nimble Japanese and European producers of solid-state circuitry. To fight back, the Milwaukee-based company built several new assembly lines for solid-state circuit boards. The payoff: Over the last two

manufacturer Toyota Industrial Equipment Manufacturing Inc. relocated its assembly for U.S. sales to Columbus, Ind., from Japan. Why tiny Columbus? It sits near two interstate highways and is close to Toyota's suppliers and its mostly Japanese dealer network. Plus, "people show up to work and they work hard," says TIE President Takashi Katoh. Today, the unit employs 285 workers and pays around \$8.50 an hour.

The renewed confidence of the Midwest is generating a wave of entrepreneurship. The area has seen venture-capital financing increase by 28% since 1990 to \$204 million. For the most part, the venture money is going to high-tech businesses with reasonable pay-off periods and is steering clear of the more speculative bets. "We're more interested in the application of existing technology and in building businesses than in trying to verify science," says Rodney L. Goldstein, general partner of Chicago's Frontenac & Co., one of the Midwest's largest venture capital houses, with \$500 million under management.

To maintain the momentum in today's brutal global economy, state and local governments are struggling to overhaul themselves with a zeal not seen since the Progressive movement around the turn of the century. Drawing on a history of civic activism and borrowing heavily from the private sector's own restructuring experience, Midwest politicians are pushing "competition" and "consumer choice" to improve government services.

**A PIONEER.** In Indianapolis, Mayor Goldsmith has put up for bid—t private contractors and city workers—public services from garbage disposal to pothole filling. Altogether, these initiatives are projected by the city to save at least \$100 million over the next several years. Winona, Minn., a town of 25,000, has forged a statewide Quality Council of private and public officials to upgrade schools, hospitals, and other city services.

The Midwestern states are also serving as national laboratories for reform in education, welfare, and health care. For example, the Minneapolis-St. Paul area has become a pioneer in unifying corporate purchasing power to control health-care costs.

On the educational front, Michigan Governor Engler sent a rocket through the nation when he scrapped property taxes as the key funding source for public schools. As a substitute, voters in



**EDUCATION** Minnesota is at the forefront of the Charter School movement, allowing public high schools to focus on particular subjects, and many encourage students to combine studies and work experience

improved their quality and are regaining market share. And at Goodyear Tire & Rubber Co., which once was forced to cut its dividend and watch its debt be downgraded to junk status, Chairman Stanley C. Gault now boasts that the company made more money last year than all the world's other major tiremakers combined.

Other outfits and industries are thriving. In 1989, minimill giant Nucor Corp. took an experimental technology and built the world's most productive steel mill in Crawfordsville, Ind., a half-hour drive from Indianapolis. Telecommunications pioneer Motorola Inc. has just broken ground on a 3,000-employee cellular-phone facility outside of Chicago. More than 300 medical-device makers

years, sales have been growing at a 43% compounded rate. This turnaround is one of the key reasons why Allen-Bradley finds 30% of its \$1.3 billion in total sales overseas, compared with just 5% in the mid-1980s. "When the major economies of the world improve, I am extremely enthusiastic about the Midwest," says Silas Keehn, president of the Federal Reserve Bank of Chicago.

Overseas companies from Japan, Germany, and elsewhere have invested heavily in the area, attracted by its skilled labor force and proximity to key customers and suppliers. The Midwest is the television capital of North America: Japanese companies make TVs there, sourcing from a vast network of American suppliers in the region. Two years ago, forklift man-



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# Motor Trend put the new a car ahead



Motor Trend's 1994 Import Car of the Year.  
The New Accord. A Car Ahead.



l magazine  
w Accord  
of the rest.





March approved a hike in sales and cigarette taxes, which should help equalize school funding throughout the state. In Milwaukee, vouchers are being used by 1,000 kids to attend private schools at public expense. And Minnesota is at the forefront of the Charter School movement, which allows public schools to emulate private schools by focusing on particular programs, such as combining school with work experience.

In welfare reform, Midwest officials are also charging ahead. In Wisconsin, Governor Thompson has unveiled a flurry of plans, such as Work Fare and Learn Fare, which penalize welfare recipients if they fail to look for a job or if their children fail to stay in school. In 1995, the state will implement two-year

limits on welfare and, in 1999, cut its ties to federal welfare funding.

In Milwaukee, Project New Hope is a trial welfare reform scheme backed by public and private interests. This fall, the pilot program—which guarantees welfare recipients an above-poverty-level job, plus health- and child-care benefits, as a carrot for abandoning welfare—will expand from 52 participants to 1,200. For Diane Suggs, a 35-year-old single mother who found a job as a claims approver at Metropolitan Life Insurance Co., New Hope has been a ticket off the welfare rolls and into her first full-time employment. It's also providing her with a sense of self-worth and enough money this summer to take her 11-year-old son on his very first vacation.

"I'm pretty proud of myself," she says.

Of course, some of the Midwest public policy innovations will fail, as one would expect with experiments. But in the final analysis, the future of America's heartland depends on the region's willingness to innovate. Certainly, the corporate sector is not taking its gains lightly. Say Deere Chief Executive Hans W. Becherer: "We've made a lot of progress, but [people think] we can rest, they're wrong." More than any economic indicator, it's that kind of fighting attitude that should build optimism about the Midwest's outlook.

*By Richard A. Melcher and Kevin Kelly, with Ann Therese Palmer, in Chicago; James B. Treece in Detroit; Zachary Schiller in Cleveland, and bureau report*

## KENOSHA: REBIRTH OF A RUST BELT RELIC

**W**hen Carol Vandenberg, a 15-year veteran of the Chrysler assembly line in Kenosha, Wis., heard her plant was closing in late 1988, she thought the town "was going to fold." The divorced mother of two, who had been pulling down \$15 an hour at Chrysler, sold her house and moved in with a friend. But Vandenberg didn't give up. She enrolled in computer classes at a local technical school, and today she's a computer troubleshooter for a local bank. Yes, she makes less money now than as an auto worker. But at least she's able to put a child through college.

Vandenberg wasn't the only one who thought the town of 80,000 was finished six years ago. A blue-collar town along Lake Michigan largely settled by German, Italian, and Polish immigrants, Kenosha saw its unemployment rate soar to almost 20% when American Motors Corp., and then Chrysler Corp. after it bought AMC, drastically cut back. From a peak of 15,000 auto jobs in the early 1970s, Kenosha was left with 1,000 in 1989.

Today, unemployment stands at 5% and housing is strong. What happened? The national economy improved, of course. And development officials courted companies by extolling Kenosha's central location and Wisconsin's relatively cheap energy. Many companies were attracted by the small-town feel—few people even lock their doors—and a skilled workforce.

An industrial park with only four tenants in 1984 is now full, half the 28 companies having relocated from out of state. A new 1,400-acre industrial park, developed and heavily marketed by the state's utility company, Wisconsin Electric, has attracted 33 medium-to-

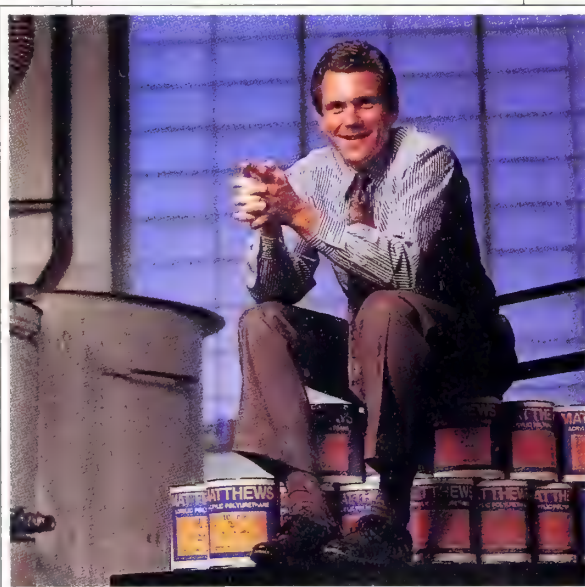
vate employer, with 1,100 jobs at a Jeep engine plant. And there's even good news there: The plant is scheduled for a \$144 million, 35% capacity expansion by yearend 1995.

Yet many Kenoshans still find themselves working harder for less money and fewer health-care benefits. United Auto Workers Local 72 President Rudy Kuzel scoffs at the turnaround: "The top 25% in Kenosha are doing well. Almost everyone else is working for half of what they were earning at Chrysler."

**COMMUTERS.** Some residents complain that it's hard to find well-paid work because the better jobs are often filled by commuters from Chicago, an hour south, and Milwaukee, a half hour north. Take Matthews Paint. When the Wheeling (Ill.) company relocated here 18 months ago, 39 out of its 40 employees kept their Chicago-area homes and began commuting north. The company, which supplies paint to Disney theme parks, has hired only four area residents, according to Bret Matthews, sales manager at the family-owned company.

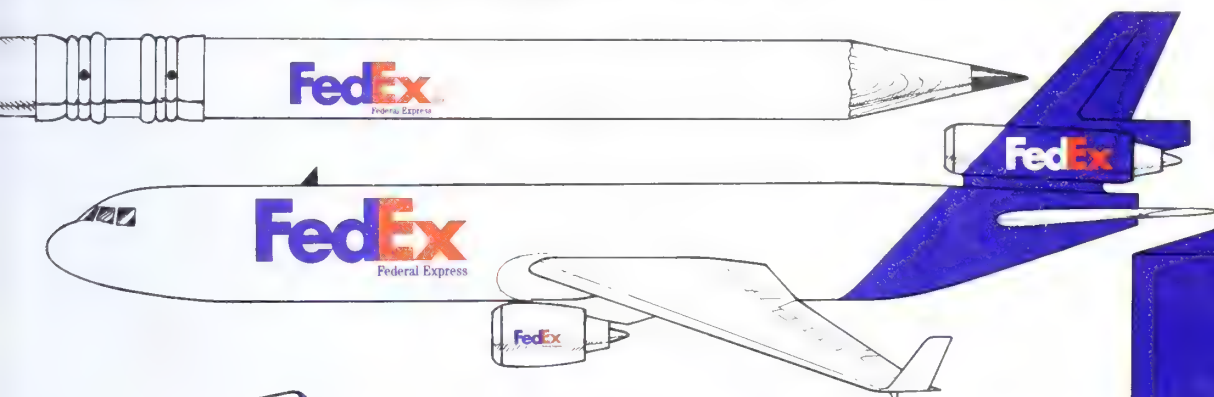
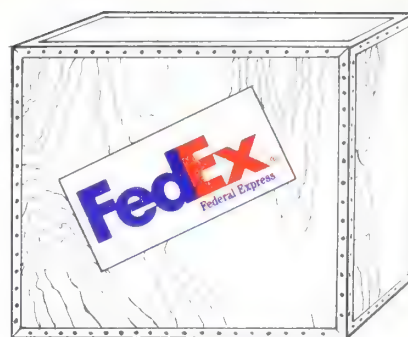
Still, local stores say that they are benefiting from the new Kenosha. Tenuta's Liquor & Deli reports that it is selling more imported prosciutto at \$19.99 a pound these days, while sales of bourbon are down. That may not help the country's trade balance, but it makes upbeat news for Kenosha.

*By Susan Chandler in Kenosha, Wis.*



**MATTHEWS PAINT MOVED TO KENOSHA 18 MONTHS AGO**

large companies and 3,000 jobs. Among the companies that have relocated facilities: Alpha Laval Food & Dairy, a division of Tetra Pak Processing Systems, consolidated its operations from Rochester, N.Y. and Fort Lee, N.J. Indeed, Kenosha is no longer a one-company town. Its economy is about evenly divided among manufacturing, retail, and services. Chrysler, however, remains the area's single biggest pri-



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"WE RUN A CLEAN SHOP  
...BUT OCCASIONALLY  
YOU RUN INTO PEOPLE  
WHO WILL KNOCK YOU"

# A DARK SIDE TO RAY DIRKS?

Former co-workers are raising thorny questions

**R**aymond L. Dirks is arguably Wall Street's most famous securities analyst. During his colorful career, the 60-year-old Dirks has been an analyst, dealmaker, whistle-blower, and "short-buster." His warnings about the Equity Funding scandal in 1973 led to a long battle with the Securities & Exchange Commission—and ultimate vindication before the U.S. Supreme Court. Dirks's most recent triumph was his early advocacy of Consecro Inc.—the obscure insurance company likely to take over Kemper Corp.

Championing Consecro, which brought him into conflict with short-sellers who doubted the stock's virtues, was Ray Dirks at his best: a smart, often courageous stock-picker. His views about Consecro and other stocks—mostly those of small companies—are frequently aired in the financial press, including *BUSINESS WEEK*. But there is another side to Dirks that is apparently not quite so favorable. In recent weeks, more than a dozen analysts, traders, and brokers have parted company with Dirks's

firm—some voluntarily, some not. These former Dirks associates are raising troubling questions about the Dirks stock picks widely promoted in the media, in advertisements, and in research published by Dirks and his boutique, Ray Dirks Research. Some also question the trading practices of Dirks's employer, RAS Securities Corp., a Manhattan underwriter of new issues with a mainly institutional clientele. Ray Dirks Research is a division of RAS.

Speaking to *BUSINESS WEEK* on condition of anonymity, former employees have maintained that Dirks and Dirks Research aggressively pitch stocks in which he and RAS have substantial unpublicized positions. And unlike Consecro, not all of Dirks's stock picks have turned

out to be enduring successes. Many have tumbled in recent months (charts)—something RAS sources attribute to investor backlash once the lofty RAS predictions failed to materialize. Among the RAS initial public offerings to fall sharply are Clinacorp, Standish Care, Nationsman, National Wireless Holding, Greenwich Air Services, Pen America Group, and Dynagen. RAS sources say one RAS-underwritten biotech company that climbed until recently, OXIGEN, was misleadingly promoted by Dirks as a direct result of his ownership of the stock. That was vigorously denied by Dirks and RAS Chief Executive Officer Robert A. Schneider (the RAS in RAS Securities).

**NERE VICTIMS.** The allegations go beyond aggressive stock-pitching. One former high RAS official says the brokerage routinely boosted prices by placing orders at the close of trading on the American Stock Exchange, thus inflating closing prices. Also, this former official says, RAS last year owned more than 10% of the outstanding shares of one of its underwritings, Standish Care Co., without

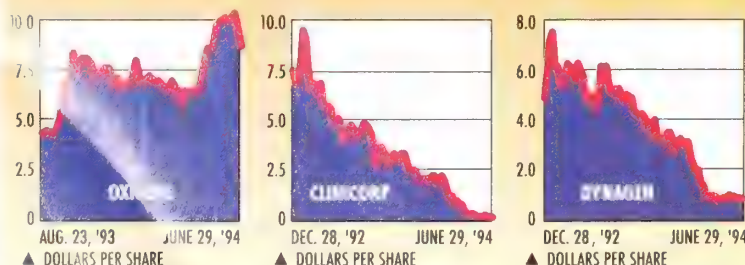
disclosing the fact to investors as required by Securities & Exchange Commission rules. Schneider denies RAS ever engaged in either practice.

Dirks and Schneider maintain they are not perpetrators of wrongdoing by victims. In separate interviews, they acknowledged that rumors of impropriety and financial trouble are dogging the firm. The financial rumors are ironic for Dirks because of his troubled stewardship of a leading IPO firm of the early 1980s, John Muir & Co. At the time Dirks publicly conceded that he was lax administrator at Muir, which was forced into liquidation.

But Schneider maintains that RAS is profitable and has ample capital, although he says he was forced to withdraw \$2 million—almost two-thirds of the firm's capital—to pay taxes in April. He and Dirks say the anti-RAS stories circulating on Wall Street are lies spread by dissatisfied ex-employees who have a grudge against the company.

Who is telling the truth: Dirks and Schneider or their former co-

## RAS SECURITIES: HOW THREE IPOs HAVE FARED





ers? One clue may be found in the RAS campaign for the stock of OXIGENE, a biotechnology company RAS bought public last August. Until recent years, when its shares plummeted 20%, OXIGENE had recorded a 1994 gain of nearly 60%, while other biotech issues were slaughtered. OXIGENE's popularity can be summed up in one word: Sensamide. "OXIGENE's product, Sensamide, appears to hinder the ability of cancer cells to repair themselves after radiation therapy and chemotherapy," Dirks said in ads bearing his photo in *Baron's* and *Investor's Business Daily*. Dirks, who says OXIGENE is his largest stockholding, has also been beating the drum for the company in his 900-number phone service. Dirks Research has issued glowing reports with such titles as "Sensamide—A Potential Major Advance in Cancer Therapy." OXIGENE officials say the RAS research and ads, though showy, are perfectly truthful. CEO Richard A. Brown says the early clinical trials on two dozen patients—along with previous tests on animals—show that Sensamide prolongs the lives of cancer patients undergoing therapy. According to a company press release on May 19, reporting on the first phase of clinical tests, Sensamide was "developed in collaboration with OXIGENE's president and co-founder, Ronald Brown, a professor at Sweden's University of Lund."

But neither the Dirks ads nor the OXIGENE press release notes that, as the company has long acknowledged, Sensamide is in fact a concentrated version of an inexpensive generic drug that has long been administered to cancer patients to curtail nausea. Brown and Brown observe that Sensamide is different because it's administered through intramuscular injection, requiring a concentrated dose, and because its acidity is neutralized. That, they say, reduces the side effects caused by the more acidic generic drug—even though that has been shown only in tests involving rats.

**OVERSOLD SELL-OFF.** Although Sensamide is protected by a patent, critics within the industry maintain that many doctors would use the generic instead of Sensamide to test the effectiveness of radiation therapy. But company officials say that doing so would risk malpractice suits. Still, a recent company-financed report by consultants Prescription Capital Inc. notes that hospital cost-consciousness "must be considered a risk for any drug, whether reformulated or not, that is

based on the active ingredient of a widely available generic." The consultant adds, however, that the neutralized form of Sensamide may diminish that risk. A leading critic of OXIGENE and of the RAS hype of the stock is former biotech analyst Suzie Niess. While still at the firm, Niess produced a scathing critique of an RAS research report (below).

In recent days, OXIGENE shares have been unceremoniously dumped. A negative item on OXIGENE was broadcast by Dan Dorfman of CNBC at midday on June 29—but most of the fevered selling took place well be-

fore the investors Dirks persuaded to buy the preferred stock of IVF America Inc., which Dirks promoted in March as having a current yield of 17%, tax-free. True? Yes—if you never sell the stock. But the dividend is not tax-free for investors when the proceeds from the sale of the stock, together with accumulated dividends, exceed the purchase price. So if an investor sold IVF America preferred stock after a year, the price would need to fall by 17% in order for the interest to be nontaxable—a ca-

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34 Investor's Business Daily

Monday, March 14, 1994

# STOCK PICK OF THE WEEK

**FREE REPORT—TO EARN 17% TAX-FREE**



"Our favorite stock this week is  
**IVF AMERICA Preferred.**  
Recently trading at \$4 3/4.  
**IVF Preferred (IVFAP)**  
has a current tax-free yield of 17%.  
Dividends are paid quarterly."

**THE DIRKS PITCH FOR IVF'S 17% YIELD DOESN'T MENTION IT'S TAX-FREE ONLY UNDER SOME CIRCUMSTANCES. AND AN RAS REPORT SHOWS AN ANALYST'S MISGIVINGS ABOUT ITS CLAIMS FOR OXIGENE'S SENSAMIDE**

fore he got on the air. In a spate of ferocious trading in which one-eighth of the outstanding shares changed hands—293,000 shares were traded on June 28, and 321,000 before noon on June 29—OXIGENE fell from 10% on June 27 to 8% on June 29, when trading was halted just before noon. What's going on? OXIGENE Executive Vice-President Dr. Yuval Binur told BUSINESS WEEK: "There are rumors about an article you are about to write being negative for OXIGENE."

To be sure, careful buyers of the stock would be aware of the market risks of Sensamide. The same goes for

## AN EXTRAORDINARY OPPORTUNITY!

### COMMON STOCK

Current Price: \$6 3/4  
52 Week Range: \$7 to \$4 5/8  
Shares Outstanding: 5,098,100  
Book Value: \$4.41

### WARRANTS

Current Price: \$6 3/4  
52 Week Range: \$6 3/4 to \$11 5/8  
Warrants Outstanding: 1,785,000  
Exercisable At: \$7 - until 9/94  
\$9 - until 9/95  
\$11 - until 9/96

### ON OXIGENE'S MAJOR PRODUCT MO/RADIATION SENSITIZER.

"prior to radiation/chemotherapy, OXIGENE's proprietary (TO) has the highly therapeutic result of inhibiting cancer cell's enormous increase in the 'kill rate' of malignant cells and

CLINICAL DATA HAS DRAMATICALLY  
DEMONSTRATED METO'S EFFECTIVENESS.

of only 30 people with fatal lung cancer, all 10 of the untreated individuals died—16 of those treated are still living!

HOW DOES METO WORK?

Its mode of action was discovered by a well known biochemist Dr. Ron Pero, OXIGENE's V.P. of Product Research & Development. METO interferes with the action of one of the enzymes that is particularly crucial to the DNA cell repair process. This enormously increases the effectiveness of radiation/chemotherapy's tumor cell "kill rate."

ALL OF THIS MEANS THAT THERE IS NO TIME TO WASTE!

**—BUY OXIGENE!—**

Results of initial clinical trials will be released shortly and we believe they will receive wide attention near term.

Where are the published scientific papers?

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*THIS IS WRONG!*  
*YOU CAN NOT SAY THIS TO SMALL OF A SAMPLE SIZE*

*This can not be definitely stated.*  
*Why hasn't the FDA given a approval already?*  
*A sample size of 16-20 is not enough!*

veat that was not mentioned in the advertisement. "A technicality," Dirks says dismissively. "When you do industry reports on 20, 30, 40 companies, you make mistakes—not that I'm saying this was a mistake."

Dirks may put his name on reports—but it does not appear on the firm's corporate filings with the SEC. Schneider and Dirks acknowledge that, as head of Ray Dirks Research—all of whose employees work at RAS—Dirks functions as head of research at RAS. According to



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When you're in your Mark, before you even turn the first corner, or for that matter before you even turn on the ignition, you know you're in for more than just your standard driving experience.

Inside Mark VIII's ergonomically designed cockpit, you'll notice something not available on any other luxury sport coupe: Autoglide front seats that move forward to make room for easy entry and exit when the seatbacks are tipped

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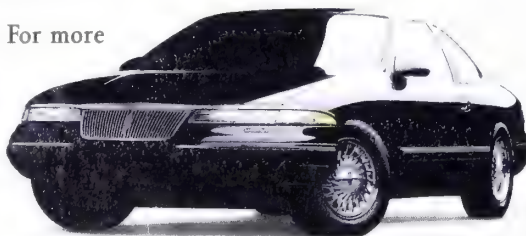
fully ahead. When returned to their normal upright position, the seats automatically glide back to their original location.

Now fasten your seat belt.

The 280-hp 32-valve engine will rocket you to wherever you need to go. There's also standard dual air bags,\* anti-lock brakes and an exclusive computer-managed suspension that automatically lowers the

car at 55 mph for better handling and less wind resistance. And all Lincolns are backed by the Lincoln Commitment, a comprehensive ownership benefits program that includes 24-hour Roadside Service Assistance and service loaner provisions.\*\*

So get in your Mark. And get set for a truly unique driving experience. For more information call 1 800 446-8888.





LINCOLN

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Dirks, 70 of the 90 RAS employees report to him at Ray Dirks Research, which, he says, generates 80% of RAS revenues. Yet Dirks is registered with the National Association of Securities Dealers, which regulates brokerages, merely as a "registered representative"—a stockbroker—and not as an officer of the firm. Is that a violation of NASD rules? Not according to Dirks and Schneider. "I don't need a partner," says Schneider, when asked to explain why Dirks was not registered with the NASD as a top manager. But NASD Vice-President Frank F. McAuliffe says research

directors are required to register as officers and principals.

Despite backbiting from his former associates, the rumpled, cordial Dirks is serene. In a lengthy interview, Dirks attributed the downturn in the various stocks underwritten by RAS—and promoted by Dirks Research—as just a sign of the malaise among small stocks and new issues. "We run a clean shop," says Dirks. "You try to do the best you can do, but occasionally you run into people who will knock you."

And how. Among the current RAS employees who are less than enthusiastic is,

well, Schneider. Asked to characterize Dirks's performance as head of research, Schneider says it "certainly is adequate, neither the best nor the worst." Does Dirks Research produce 80% of the firm's revenues? "That's not accurate," says Schneider. "It's probably 40% to 50%."

A detail? Irrelevant? Perhaps. But stock research is an agglomeration of small, seemingly irrelevant details. In his eagerness to promote stocks at a rake in profits, Dirks seems to have forgotten the old saw that God is in the details—omitted at his peril.

*By Gary Weiss in New York*

## PLAYERS

# SUDDENLY, INDIANS ARE HOT PROPERTIES ON THE STREET

Financial firms are hiring thousands—and some are rising fast

**S**wapan Bhattacharya was born in Bihar, one of India's most backward states. Determined to escape his humble origins, he worked his way through India's most prestigious engineering school and came to America. He took night classes at Northwestern University's business school in Chicago while working for a consulting firm during the day. To survive, he spent the summer of 1979 selling Bibles door-to-door in rural Texas, which, he jokes, is "to date the toughest job I have done." Today, at 37, Bhattacharya is a senior vice-president at PaineWebber Group Inc., working in the firm's international corporate-finance unit.

Indians such as Bhattacharya, who arrived in the U.S. with only a couple of hundred dollars in their pockets, are suddenly hot properties on Wall Street. That's partly because India has the world's third-largest pool of science and engineering talent, after the U.S. and Russia. The Indians also are English-speakers who are comfortable operating in Western-style bureaucracies.

Cashing in on these strengths, thousands of Indians have cracked Wall Street's performance-based world, one that is quite distinct from the classist, even castist, culture they grew up in. At thirtysomething, they have reached vice-president, managing director, and even partner levels. With many of the Street's newest niches—such as deriva-



MORGAN STANLEY'S DHAR MANAGES \$6.5 BILLION

tives and mortgage-backed securities—depending heavily on mathematical formulas and computer knowhow, Indians have carved out roles for themselves at top firms including J.P. Morgan and Merrill Lynch & Co. "They are real powerhouse people," says Barton M. Biggs, chairman of Morgan Stanley Asset Management. Morgan Stanley has about 140 Indians working in its various divisions in New York.

No reliable statistics exist to compare how well the Indians have done on Wall Street compared with Chinese or Japanese counterparts, but most experts believe the Indians have done better. "What is interesting is not only their

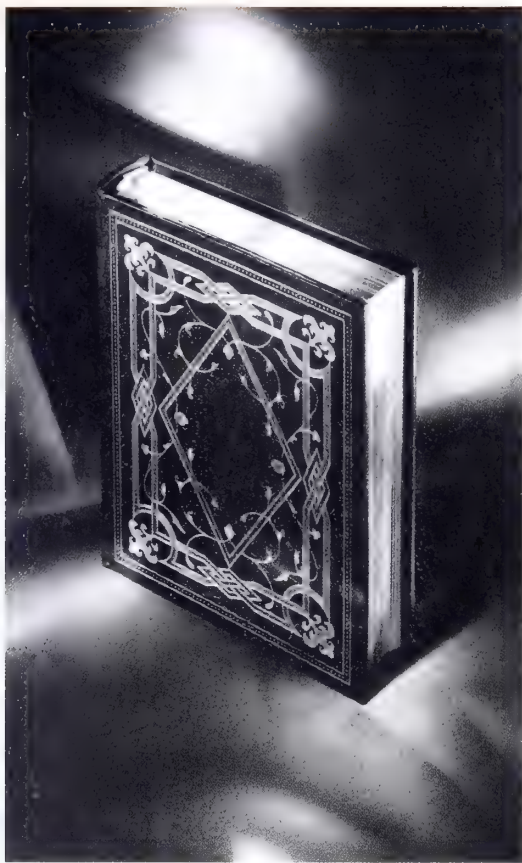
penetration at the managing director and partner level but also the breadth of their capabilities in asset management, sales and trading, research, and investment banking," says Joan C. Zimmerman of G.Z. Stephens Inc., an executive-recruitment firm specializing in Wall Street.

Unlike the Chinese, Indian professionals don't do deals together, and there isn't an Indian professional organization for Wall Streeters. But they make up for that by stressing work, and lots of it. "Because Indians don't fit into the stereotypical GQ image of the investment banker, we have to work just a little bit harder to prove ourselves," says Bhattacharya, who puts in a 12-hour day and travels abroad almost every month.

**PIN-STRIPED.** With India figuring more prominently on the world financial map, many of these Indians are helping to guide their U.S.-based institutions in Bombay's rough-and-tumble capital markets. Madhav Dhar, who manages \$6 billion in emerging-market funds for Morgan Stanley, helped raise \$500 million from domestic investors in India for an offshore fund that is listed on the New York Stock Exchange. Karan Trehan, senior vice-president of Alliance Capital and president of its international unit, has set up Alliance offices in Bahrain, Singapore, and more recently, Bombay, where he sees a powerful equity cult waiting to be serviced. "India's financial boom is being pushed along by Indian expatriates working on Wall Street," says Trehan.

Some observers, in fact, predict that Indians won't stay in the U.S. indefinitely. As the pin-striped culture takes over Bombay's financial district, some Indians on Wall Street are already opening to go home. But the sheer number of hard-charging Indians in America's top educational institutions are so high that Wall Street is likely to feel their impact for years to come.

*By Namita Devidayal in New York*



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CHAPTER  
OF A GREAT WORK  
MIGHT TELL  
ITS OWN TALE,  
BUT ITS TRUE  
GREATNESS  
LIES IN  
ITS TOTALITY.



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# COFFEE ISN'T ALL THAT'S PERKING IN THE PITS

With prices likely to keep rising, commodities should stay hot

**F**or much of the year, the price of copper has been on a relentless rise. With a global economic recovery stimulating demand and available supplies dwindling, futures contracts on the industrial metal soared 37% since December, to nearly \$1.14 a pound on June 20. Then fears developed that speculative fever had pushed the market too far, and prices beat a quick retreat, dropping below \$1.06 on June 28.

It's the same story across a wide swath of commodities, from grains to energy to "soft" commodities such as sugar, cocoa, and cotton. With the exception of coffee and aluminum, most commodity prices have fallen from recent peaks, leaving investors to wonder if the bull market of the past few months has passed them by.

Don't bet on it. Most analysts believe prices will continue to rise over the remainder of the year—and quite possibly for some time beyond that. What's going on in many futures markets is the flip side of what's happening in the bond market—the perception that inflation is around the corner. Traders and investors fleeing bonds and stocks are looking around for inflation-friendly plays, and they're finding them in commodities. Trading volume in commodity futures contracts was up 26% in the first five months of 1994. "Commodities are coming up on the radar screen," declares Richard L. Sandor, who heads Centre Financial Products Ltd. in New York.

**HEDGE-FUND MOVES.** Money is streaming into the markets from some unlikely sources. Futures pros believe that hedge funds, the secretive private investment partnerships that usually invest in financial assets, are now throwing some of their cash into commodities. Even certain U.S. pension funds are joining in with tiny stakes in diversified futures portfolios.

While most mutual funds don't buy

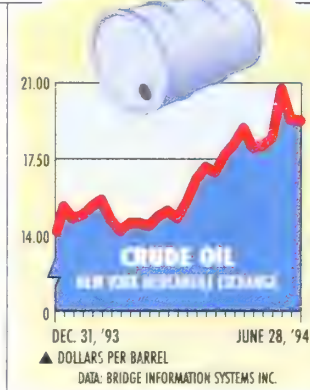
commodity futures, some are joining the game anyhow by investing in financially engineered securities whose yield is tied to the price of a single commodity or even to a commodities index. For example, the most recent report from the Fidelity Asset Manager Fund shows nearly \$400 million in 21 structured securities whose interest payments are linked to different commodities ranging from aluminum to zinc.

A hefty chunk of the new money is looking for higher prices—and thus going long. Some futures traders believe that a few of the big hedge funds have shifted as much as 10% of their assets into commodity futures.

Investors hoping to capitalize on the bullish sentiment should appreciate that the commodity markets are a lot trickier than they seem. Take the Commodity Research Bureau Futures Price Index. The CRB has become one of the most closely watched indexes

around. Unfortunately, even one relatively insignificant commodity can distort the index. Take coffee: After soaring 94% from the 1993 low, coffee prices pulled back 13% amid fears that higher prices would encourage producers to liquidate stockpiles. But frost in Brazil changed the supply picture overnight, sending coffee prices soaring 27% on June 27.

Much of coffee's action has had more to do with Mother Nature than with macroeconomic trends. That's also true of soybean and



corn prices, which rose up amid a dry spring but fell when summer rains arrived in the Grain Belt. Yet each agricultural commodity has the same impact on the CRB as oil, which is far more important to the economy and inflation.

The money gushing into commodity futures further, could swamp the markets, making

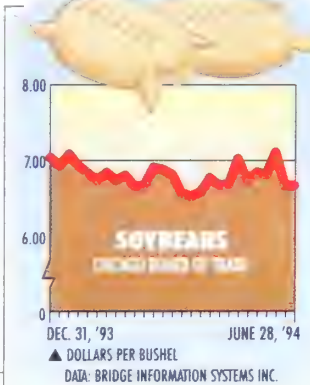
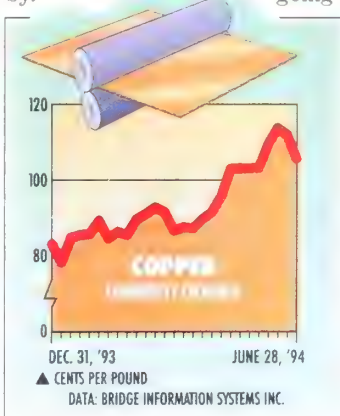
prices more erratic. Compared with stocks and bonds, these markets are small. If all U.S. pension-fund managers allocated just 1.9% of their assets to commodities, their investment would equal the entire open interest—the amount of outstanding contracts—in the major futures markets. "It only takes a small drop of that kind of money to be a big flood in the futures market," explains Jack D. Schwager, director of futures research at Prudential Securities Inc.

**CAVEAT INVESTOR.** Many institutional investors are making their move through "managed futures"—the futures industry's answer to mutual funds. Sabre Asset Management in London, for instance, has drawn \$50 million from European institutions for a fund that will take long positions in up to 20 different commodities. In the first quarter, the latest available data, futures funds did best in energy and agricultural trading, up 3.1% and 1.6%, respectively, according to the

Barclay Trading Group Ltd. Managed funds command \$23 billion at yearend.

But the investor should beware. The current wave of bullish sentiment is likely to push prices higher for some time. But if the underlying macroeconomic conditions don't reinforce that sentiment, going long could turn out to be a sucker's bet.

By Greg Burns  
Chicago



THE 1994 BUSINESS WEEK

# CORPORATE FORUM OF THE South

*Created by BUSINESS WEEK and DRI/McGraw-Hill*



## THE SOUTH: SEIZING AND HOLDING NATIONAL ECONOMIC LEADERSHIP

**I**n 1991, Zell Miller took the helm of an \$8 billion enterprise of more than 100,000 employees and seven million clients. He downsized — eliminating 5,000 positions and cutting \$800 million from his budget. Zell Miller is the chief executive officer of the state of Georgia, and if you tell him he runs his state like a business, he'll make no apologies. "Business and government both want a vibrant economy, a solid infrastructure, skilled workers, and an environment in which businesses and their employees can thrive—that's what we deliver." In Georgia, as in much of the South, business and government are entering unprecedented partnerships to achieve those shared goals. Their success has made the South the fastest growing region in the nation.

At The 1994 BUSINESS WEEK Corporate Forum of The South, Governor Miller joined more than 100 of the region's most influential senior executives, public and private, to discuss strategies for maintaining fast-paced development and propelling the region into a new era of prosperity. Regionalism is the growth phenomenon catapulting the South to economic preeminence. DRI/McGraw-Hill Principal, David J. Walker, says it is indicative of a global trend. "In the old days competition was between cities and states. Now, internationally, we see the rise of regional competitiveness."

Walker says the economic growth of the South (as that of any region) rests on six basic economic foundations — technology, human resources, capital availability, infrastructure, a pro-business regulatory and tax environment, and quality of life. Strengthening those foundations requires forging public/private alliances based on a shared vision between business and government.





Georgia's Zell Miller is doing just that. While many development councils focus solely on luring new businesses, Georgia goes further, keeping them happy once they've arrived. To that end Miller created BEST — Business Expansion Support Team. "Just as businesses that relocate to the state enjoy tax credits, BEST provides tax credits for existing businesses that create new jobs," says Governor Miller.

Since 1991 when he took office 243,000 new jobs have been created in Georgia — the third highest job creation performance in the nation. And this year, Miller projects 90,000 more new Georgia jobs.

Georgia's highest-profile public/private alliance is the Centennial Olympic Summer Games, which Atlanta will host in 1996. "The reason Atlanta won the privilege of hosting the Games," says Atlanta Mayor William Campbell, "is that we have the best relationship between business and government in the country." Campbell credits the political clout of former Atlanta mayor Ambassador Andrew Young and the business savvy of Atlanta entrepreneurs Billy Payne and Robert Holder with bringing the games to Georgia.

Robert Holder, co-chairman of the Atlanta Committee for the Olympic Games, projects the '96 Summer Olympics will be the most important one-time event ever for Atlanta and the South, highlighting the region's newfound success and national stature. The games are worth \$5 billion to the Georgia economy.

#### ZELL MILLER



Governor  
STATE OF GEORGIA

*"Business and government both want a vibrant economy, a solid infrastructure, skilled workers, and an environment in which businesses and their employees can thrive. That's what we deliver."*

*"Professional politicians don't understand free enterprise. My thirty years in business taught me that government can't create jobs, only private industry can."*

*The Honorable Kirk Fordice, Governor,  
State of Mississippi*

band highway will result in \$2.5 billion in added revenues to the state.

The opening of broadband highways like North Carolina's puts the South on the cutting edge of the information revolution — a major competitive advantage, but only for those businesses that can use, store, and retrieve data quickly and efficiently.

Louis Ferrero, chairman and CEO of Atlanta-based Anacomp Inc., says, "Managing data through its life cycle has never been more important. In an age where profit or loss can be determined by how quickly information is processed, businesses need help in deciding which data management systems will maximize the competitive edge."

Ferrero says that an essential tool for leveraging the business potential of the information highway is a single system capable of storing, indexing, and retrieving data instantaneously.

But the gains being made in information technology will be lost unless the South makes comparable effort to shore up another key block in its economic foundation — human resources. Christopher Whittle, chairman of Knoxville's Whittle Communications, says the antiquated methods of public education simply don't work. "Imagine the current education system as an airline with planes that take off only 30% of the time. That's what's happening in American education; the vast majority of our students are not being adequately prepared by the current system. That is appalling to us as business people."

To prepare students to compete in the global marketplace, Whittle offers a bold, business approach to education — the Edison Project. The Project contracts its services as a business would to cities and counties. Planned project schools promise to deliver low student-teacher ratios and three-year student-teacher relationships to enhance accountability; a longer school year to increase lesson time; an expanded school day to address the realities of working parents; high performance expectations to challenge students; and computers at home to link students and their parents with the classroom.

#### LET'S MAKE A DEAL

Collaborative approaches for growth, such as the broadband highway and Whittle's private role in public education are hallmarks of the southern surge. South Carolina's northwest region, the Upstate, is a micro-

#### INFORMATION AND EDUCATION

North Carolina has used its cooperative relationship between business and government to develop one of the nation's most advanced information infrastructures. Jane Smith Patterson, a chief advisor

to the Governor of North Carolina, and member of Vice President Gore's Advisory Council on the National Information Infrastructure, estimates that the broad-

n of the public/private alliances  
elling that surge.

During the 1980s, per capita  
ome in the region grew 36%.  
th Carolina Governor Carroll  
pbell expects 34,000 more service  
to be created in the region to sup-  
t the 37,000 manufacturing jobs  
have been announced since 1987.  
businesses do not just show up  
ask where to build a plant. South  
olina entices them with a highly  
petitive, pro-business regulatory  
tax environment.

While praising the reception his  
ss company received in South

olina, William Ruefenacht, president and CEO  
Helima Helvetion International, is concerned about  
pressures of growth. "Rapid growth can lead to the  
y conditions new or relocating businesses were  
ng to avoid."

Among the growing pains Ruefenacht warns of,  
ronmental problems may hold the greatest potential  
at to continued rapid growth. Twenty-five percent  
he South's regional gross product comes from its  
ufacturing base, which relies on plentiful water for  
rocesses. William Willis, CEO of Tanasi Corporation  
former senior executive officer of the TVA, says,  
business leaders must work to convince our state and  
onal economic partners that the issue is paramount  
ur collective economic futures."

William Ruckelshaus, chairman and CEO of  
owning-Ferris Industries and twice administrator of  
U.S. Environmental Protection Agency (EPA), says  
ultimately, public opinion drives environmentally  
nd policies for growth. "The process begins when  
public determines something is wrong. They  
and solutions. And then there is a political response  
he form of legislation or regulation." Ruckelshaus  
ourages the strategy of *sustainable development* as the  
y method of growth that will ensure the well-being  
he environment. "The South has the best chance of  
odying that concept due to the atmosphere of coop-  
ion between government and business."

## YOU BUILD IT, THEY WILL COME

rowth problems are no hindrance to the intensi-  
ing competition for economic development. When  
cedes-Benz announced its plans to build the plant  
its new "all-activity vehicle" in the United States,

### ROBERT CROLIC



**Vice President, Southern Region  
MERCEDES-BENZ OF  
NORTH AMERICA**

*"The Mercedes decision  
to locate in the South is  
emblematic of the area's growth,  
affluence, and sophistication."*

30 states and 150 sites entered into a  
competition.

The field was narrowed to six  
states, five in the Southeast. "The  
Southeast became the focal point of  
our efforts," says Mercedes-Benz  
Project President Andreas Renschler.  
"It was most competitive in trans-  
portation costs, skilled workforce,  
wages, advanced infrastructure, and  
proximity to an established supplier  
base."

Mercedes' decision is more than an  
economic boon to Alabama. "The  
increasing importance of the South,  
both as a burgeoning market for

Mercedes-Benz automobiles and as a location for the  
manufacturing of one of its newest products, is  
emblematic of the area's growth, affluence, and sophis-  
tication," says Robert Crolic, vice president, Southern  
Region, Mercedes-Benz of North America.

To win Mercedes for Alabama, Governor James  
Folsom compiled a \$253 million economic incentive  
package. On top of that, Alabama's private sector put  
up \$21 million in incen-  
tives and the state will  
abate \$52 million in  
Mercedes' taxes.

Incentive packages  
have become a hotly con-  
tested issue. Is it neces-  
sary to use public re-  
sources to shoulder risks  
taken on by private enter-  
prise? Governor Folsom  
argues that "the lion's  
share of our incentive  
package will directly ben-  
efit the general popula-  
tion, and prepare the way  
for additional enterprises  
to locate in Alabama."

Virginia Secretary of  
Commerce and Trade,  
Robert Skunda, agrees.  
Having lost in efforts to  
attract a number of big  
investments, Virginia abandoned its conservative  
approach and decided to play the incentive game.  
When Virginia learned of Walt Disney Company's  
interest in locating a theme park in the northern part of

### LOUIS P. FERRERO



**Chairman & CEO  
ANACOMP, INC.**

*"Managing data through its life  
cycle has never been more  
important. In an age where  
profit or loss can be determined  
by how quickly information is  
processed, businesses need help  
in deciding which data  
management systems maximize  
their competitive edge."*



the state, "We came up with a partnership."

The Virginia-Disney partnership costs over \$150 million. Too much? Certainly not, says Skunda. The project will generate 19,000 jobs in the state and attract some six million tourists.

But University of Texas economist Bernard Weinstein says Virginia did give away too much. Weinstein estimates that Virginia's incentive package amounts to spending \$60,000 on each of the 2,700 jobs directly created on the Disney site. "Why are states giving away incentives to large profitable enterprises?"

Weinstein argues that incentives shift tax burdens to citizens. Moreover, he argues, the South doesn't need these incentives. "Incentives are not what's driving growth in this region. We're the fastest growing region in the country because we've got the lowest taxes in the country, and the best quality of life; we don't need to be giving away resources and tax base."

#### ADOLFO HENRIQUES



Executive Vice President-  
Latin America  
NATIONS BANK

*"There are two types of opportunities in Latin America: taking part in the privatization of state-owned industries, and partnering with privatized companies to help them to compete worldwide."*

partnering with privatized companies to help them to compete worldwide," says NationsBank Executive Vice President-Latin America Adolfo Henriques. "The most successful privatization efforts that I have seen are those that combine the financial capacity and operating efficiency of U.S. and European companies with the expertise of local partners."

DRI/McGraw-Hill Director of International Research and Chief International Economist Nariman Behravesht advises that businesses considering investment in Latin America assess each country according to the "three Cs" necessary for long term economic reform —

#### ANOTHER WORLD

Opportunities for the South don't stop at the Gulf of Mexico. Expansion of the North American Free Trade Agreement could open the door to 422 million Latin American consumers, and position the South for international economic leadership.

"There are two types of opportunities in Latin America: taking part in the privatization of state-owned industries, and

#### PEER-DRIVEN LEARNING IN ATLANTA AT EMORY'S "CEO COLLEGE"

In the heart of the South, a new resource for executives is flourishing — The Center for Leadership & Career Studies of Emory Business School. Several times each year, the Center convenes 65-75 of the nation's most prominent CEOs, to address the issues they face daily. So exclusive is Emory's five-year-old Center, it has been dubbed "CEO College."

"Without stimulating interaction and feedback," says Dr. Jeffrey A. Sonnenfeld, director of the Center, "leaders in high office can atrophy. But it is difficult to assemble a meaningful, trustworthy peer group for idea generation; that's what we do."

Candor is what distinguishes these invitation-only meetings from other executive gatherings. To date the Center has drawn more than 4,000 top corporate leaders to its intensive sessions. "We don't prop speakers up before passive audiences," says Sonnenfeld. "We offer a forum of active, candid participants where leaders challenge each other's models and exchange remedies for the vexing problems that directly affect the lives of millions."

commitment, confidence, and consensus. "Commitment is the government's resolve to reform and to become a market-oriented economy. Competence is the ability of the technocrats to do it. Consensus among the population is the most difficult to put together." Given those criteria, Behravesht says Mexico and Chile have been the most successful and offer the safest investments so far.

#### HOW TO WIN

With its ability to build successful public-private alliances — both internationally and domestically — the South has effectively seized national economic leadership. Holding on to that leadership will require vigilant attention to shoring up the foundations upon which that leadership is built: technology, human resources, capital availability, infrastructure, environment, a pro-business tax and regulatory policy, and quality of life.

By Martin A. Koehn, a Boston-based business writer

GENE G. MARCIAL

## IG BIDDERS MAY BE UNING IN O M/A COM

**A**mong the scores of high-flying technology stocks that investors have become disenchanted with is M/A COM Inc. After posting disappointing first-quarter earnings, M/A COM, trading at around 10 in January, skidded to 5 by late April. But lately, the maker of military and commercial telecommunications gear has picked up speed on rising volume, closing at 7½ on June 28. Some heavy hitters think something is afoot and have accumulated shares.

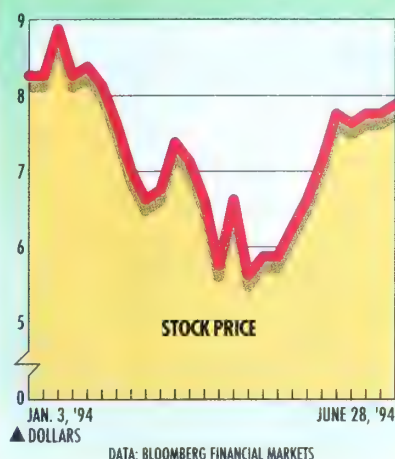
These pros are betting that M/A COM will become buyout bait. One Boston hedge-fund manager, who has been buying in, says three major contenders are considering separate bids for M/A COM. One of them, he says, is a large telecommunications company. Another is a maker of missiles, radar equipment, and commercial aircraft. And the third is a big player in cellular telephones.

What attracts these companies to M/A COM, says this pro, is its technology in radio-frequency wireless communications, which the military has used in various ways. M/A COM has the capacity to apply the technology to non-military uses, such as cellular telephones and warning sensors to help prevent collisions in cars of the future.

**ANGING INTO CIVVIES.** Charles Kaplan, an analyst at Herzog, Heine, Geddes, a New York securities and investment firm, agrees that M/A COM could become an attractive takeover candidate. "Its hidden value lies in its gallium arsenide radio-frequency technology that is vital to wireless communications," says Kaplan. M/A COM has whittled down its defense business to about 37% of total revenues. On the other hand, the commercial side of its business has increased to 47%. The remaining 16% comes from nonmilitary government business.

Kaplan figures M/A COM is worth about a share in a takeover deal. He believes the company's earnings will expand as its commercial operations increase and military orders stabilize. He estimates M/A COM will earn 80¢ a share in 1996, up sharply from an estimated 45¢ in 1995 and 35¢ this year. The company earned 26¢ last year.

## M/A COM: ON THE WAY BACK UP



Most analysts, notes Kaplan, have become impatient with M/A COM because of the long delay in its promised turnaround. One big investor, however, says: "A buyout could come before the turnaround."

## THREE THAT GOT UNFAIRLY PUMMELED

**W**ith the market so unrelenting in beating down stocks, what is an investor to do? Savvy money manager Seth Glickenhause thinks such times usually are the most opportune for value-hunting. "When you know a company is basically sound, and its stock is being hammered to a fare-thee-well, there is no reason not to buy," he says.

He points to three stocks he thinks don't deserve the beating they've been getting: Cheyenne Software, a major software company, primarily for wide-area network computers, which has recently dived to 8, down from 30 in mid-March; Ivax, a large generic-drug maker, which has crashed to 15, down from 38 in early March; and O'Sullivan Industries, a manufacturer of ready-to-assemble furniture, which has plunged to 11, down from 24 in early February.

"In 18 months, I see these stocks doubling in price, based simply on their growth businesses and their resiliency," says Glickenhause.

He notes that Cheyenne has disappointed the Street because most analysts now expect the company to grow at only 40%—instead of the previous 50% a year. He notes too that Chey-

enne controls 60% to 70% of the market for its software products.

In the case of Ivax, Glickenhause isn't worried over the competition in generics that the Street is now concerned about. "Ivax Chairman and CEO Phil Frost has made it known he will buy 1 million more shares to add to his existing 20% stake. That's good enough for me to have faith in the company," says Glickenhause.

As for O'Sullivan, he thinks that the ready-to-assemble furniture business has huge growth prospects, as demand has skyrocketed. "Its key to success is low cost and convenience," he says.

## A SCORCHING PLAY ON COOL AIR

**A** tiny company in the \$26 billion worldwide air-conditioning business, ICC Technologies may have a future that's, well, quite hot. Already, a \$2.4 billion Big Board-listed chemical corporation, Engelhard, has formed a 50-50 joint venture with ICC to develop and market ICC's new alternative air-conditioning system that uses no compressors or ozone-depleting refrigerants, such as chlorofluorocarbons (CFCs). Because of their harmful effects on the environment, CFCs will be banned by 1995 through an international accord. Therefore, ICC's proprietary desiccant-cooling technology—extracting moisture from incoming warm air—could be a big seller.

The stock, now at 4½, "is tremendously undervalued," says investment adviser John Westergaard. With ICC's market capitalization of about \$45 million, "investors are paying no premium for the open-ended opportunity presented by ICC's technology." A single major contract, he figures, "will take the market cap to \$100 million virtually overnight."

In the ICC system, air moves through a desiccant wheel that removes moisture from the air, then passes through a temperature-reducing thermal wheel before entering the conditioned space. The system starts by creating dry air, which is easier to cool—and cheaper because it uses less electricity. ICC's Desert-Cool unit also uses the desiccant technique for humidity control and heating.

Westergaard sees the company breaking even in 1995 and turning profitable by 1996. "A year from now, the stock will hit 15," he says.



## COMPAQ STRETCHES FOR THE CROWN

Having conquered the PC markets, it's aiming to become king of all computer hardware

**C**ompaq Computer Corp. is the company every computer maker wishes it could be. Revenue per employee is a mammoth \$713,000—the highest in the computer industry and more than double that of Dell Computer Corp. and IBM. Its personal computers fly off the production line at a rate of one every 10 seconds. Market share doubled last year, and the stock is now trading at \$32 a share, or \$96 before a 3-for-1 split in May—a long way from the low 20s where it lingered two years ago. Sales have zoomed from \$3.3 billion in 1991 to \$7.2 billion last year, making the PC maker one of the top computer-hardware suppliers in the U.S.

Call it King Compaq. Having conquered the desktop and laptop PC markets, Compaq is now in a position to become the most influential player in all of computer hardware—not simply PCs. It has already created a range of new services and products to accelerate the PC's push into corporate computing worlds long dominated by the mainframe and minicomputer. Next year it will launch an assault on new consumer markets, from stand-alone home PCs to game players to set-top TV boxes. On June 27, the Houston company made its boldest play yet: the introduction of a six-foot-high computer code-named the Armada (page 142) that is designed to wean major corporations off their mainframes. Compaq hopes it can leverage its lead in the \$5 billion PC-server market to take on IBM, Digital, Hewlett-Packard, and other old-line computer makers.

**HAPPY CUSTOMERS.** Certainly the timing is right. Servers such as the Armada are replacing the big iron minicomputers and mainframes that have handled most corporate jobs. IBM CEO Louis V. Gerstner Jr. admits that IBM's biggest mistake was waiting too long to address the client-



**PFEIFFER** Looking to woo major corporations with a new client-server setup dubbed the Armada

server market. Now, Compaq may be able to take up the old IBM mantle. "They have the momentum right now and the vision," says International Data Corp. analyst Richard Zwetchkenbaum.

And they have the customers. Compaq sold more PCs in the first quarter than any other manufacturer, although IBM and Apple Computer Inc. are still expected to lead for the full year. In May, Compaq overtook IBM for PC leadership in Europe. And in Japan, the company's sales growth will comfortably outstrip the 20% to 30% growth analysts predict for total unit shipments.

To Compaq CEO Eckhard Pfeiffer, the future's so bright he has to wear shades. "We're generating demand, and we're going to grab everything we can," says

the normally low-key German. Pfeiffer stated goal: Overtake IBM as the world No. 1 PC supplier by 1996. Given a sudden slowdown for IBM, Compaq could fly by Pfeiffer's goal a year early with such hot products as the Presario home PC, the ProLinea models, and the new Elite notebook PC.

So what makes Compaq so hot? Nothing all that original—just price-busting products that create megavolume demand. "A ground rule," says Pfeiffer, "is to set very aggressive cost goals to get very attractive entry-level products." Take the entry-level Presario home PC, for example. It's an all-in-one machine where the monitor is built into the computer. That's an approach consumers love, and the numbers prove: Compaq sold 55



on worth of Presarios in 1993, and nets \$1 billion this year.

Granted, not everything Compaq turns to gold. Last year, its pen- and Concerto PC fizzled, and it folded its laser-printer line, taking a \$10 million charge. But those mistakes were offset by its best-selling PC servers, which accounted for 37% of the market, up from 25% in 1992. All the while, Compaq has been cutting costs better than anyone in the business. Gross profit margins at around 23% since 1992—are the envy of its rivals. "Our profit margins

are not as good as a Compaq," IBM CFO Jerome B. York concedes. "Compaq is doing a very fine job."

So what could go wrong? Plenty. The history of the PC industry is marked by the spectacular fall of companies that once seemed to do no wrong. Struggling competitors Dell, Apple, and most recently IBM could easily stage a comeback. Compaq might also suffer from its aggressive production schedule—nearly double last year's rate—if demand drops substantially. Already, the signs of a slowdown are mounting, what with recent earnings troubles at Lotus Development Corp. and Gateway 2000 Inc. And, of course, the company could

take its eye off the ball as it did three years ago. That's when Chairman Benjamin M. Rosen booted founder Joseph R. Canion because he persisted too long in producing high-feature/high-cost computers when the competition was cut-

ting prices. Rosen says that's unlikely to happen again: "Fortunately, the two-by-four that hit us in 1991 is still indelibly etched in our foreheads."

As it should be. After all, there's nothing inherently unique to Compaq's prod-

ucts or marketing strategy. If the company has a secret formula, it's on the execution front. Pfeiffer's first priority on taking the helm was to cut costs and prices, not come up with some brilliant new engineering feat. Compaq now pores through heaps of market research before developing a new product. Marketing then comes up with a price target and calls in manufacturing, engineering, and sales to hash out the best combination of features and components to meet it.

**BIG BET.** That's the formula Compaq used to develop the ProSignia vs server. Marketing saw a big opportunity for a server costing only 5% to 10% more than a desktop PC. Engineering and manufacturing scrapped expensive features such as high-end graphics, while adding critical software to manage networks. And they wrangled a good deal on a key chip from Advanced Micro Devices Inc. The result: Compaq figures the ProSignia will help double its share of the PC-server market this year.

A product's success can backfire, though, if the supplier can't meet demand, as Compaq

knows only too well. "Last year, we could have grown 20% to 30% more than we did [in servers]," says systems division chief Gary Stimac. To avoid such supply shortfalls this year, Compaq is investing \$110 million to boost factory capacity. The company also can't afford to overestimate a product's appeal. Guess too high, and it risks falling back to earth under the weight of excess inventory like so many other former PC juggernauts. As it is, Compaq carries almost \$1 billion in finished-goods inventory. That's 70 days' worth, twice that of Dell.

Compaq is betting big on a new logistics system to avoid that fate. Come July 1, it will begin building PCs to order from a huge stockpile of parts. It opened a sprawling Houston warehouse in mid-May where suppliers will store and own their goods until parts are ordered by a Compaq assembly plant. By the end of next year, says Gregory Petsch, senior vice-president for operations, Compaq should be building every PC to order.

Few companies have the major-league clout to make such demands on suppli-

## HOW COMPAQ DOES IT

### DIVIDE & CONQUER

Separate product and geographic regions have their own business models.

Top management meets monthly to monitor the units and allocate resources.

### PEOPLE POWER

Shipments have soared, but not hiring. Result: outstanding productivity—sales of

\$713,000 per employee vs. \$383,000 at Dell.

### PRECISION LOGISTICS

A just-in-time supply chain cuts inventory and manufacturing costs. More PCs are

being built to order—not for the warehouse.

### DESIGN IN SAVINGS

Engineers work with manufacturing and purchasing to make sure parts are shared

across product lines.

### CUT YOUR LOSSES

When a product or marketing approach isn't paying off, kill it fast. For example, last year laser printers got the ax.

### TIMING IS EVERYTHING

Having the right products at the right price is better than being first. That's how Com-

paq went from nowhere to No. 1 in notebooks. Extensive market research helps. So does common sense.



By the end of next year, he hopes to build every PC to order



# Information Processing

ers. But Compaq is increasingly calling the shots with industry powerhouses. Most PC makers, for example, simply shove the latest feature from Microsoft Corp. and Intel Corp. into their machines. Compaq is one of the few bold enough to break from the pack: All of its PCs include software that improves the way Microsoft's Windows manages files. Compaq also doesn't slap the "Intel Inside" sticker on its PCs—it would rather promote its own name. Besides, it's not always Intel inside. In January, Compaq told Intel that it will also buy from Advanced Micro Devices. "Here's a company that's actually talked back to Intel," says analyst Martin Reynolds with market researcher InfoCorp.

**LAST FRONTIER.** But much to the relief of its rivals, Compaq is not abandoning the Intel/Microsoft standard. Compaq's success "supports the business model all of us have been pushing—standards-based computing," says Safi U. Qureshey, president of PC maker AST Research Inc. To push the PC standard forward, Compaq has become the quintessential facilitator. For example, it's at the forefront

of efforts with Microsoft and others to push Plug and Play standards that will make it easier for consumers to operate peripherals.

That's because Pfeiffer is determined to move into the last frontier of the PC industry: the home. Compaq has been publicly silent amid all the Information Superhighway hoopla, but it has been quietly talking with potential partners from edutainment-software makers to telephone companies about making the PC the center of a range of consumer appliances. Pfeiffer's vision: to churn out all shapes and sizes of PCs in the next few years, including models that can double as telephones or cable-ready TV sets.

It's all part of a concept the company calls "lifestyle computing." An array of PC-like products will be geared for a particular room—a gadget, say, for the kitchen with hands-free phoning, a ster-

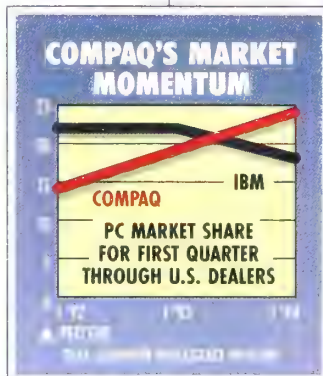
eo-equipped box with high-quality graphics for the kid's room, or a large screen PC-TV for the living room. Says Pfeiffer: "The PC is cutting across the entire marketplace—from the consumer to the corporation."

With all these projects under way,

Compaq could be stretching its resources thin. Its new Elite notebook, for example, was supposed to ship a few months ago but is just going out the door now, having been plagued by startup glitches. True, this can't be considered a significant bloop. But if Compaq wants to become the ruler of Computerdom, it can't afford many such mistakes.

After all, it wasn't too long ago that IBM was King Computer, and look what happened: It got pushed aside by upstart Compaq.

*By Peter Burrows in Houston, with bureau reports*



## AN ARMADA—OR MAYBE JUST A FLOTILLA

**S**ix feet tall and weighing up to 1,000 pounds, Compaq Computer Corp.'s latest product is hardly what you would expect from a PC company. But as its code name, the Armada, suggests, Compaq is out to conquer new worlds: namely, the corporate market of mainframes and minicomputers long dominated by IBM and Digital Equipment Corp.

The name Armada, however, may be a bit too grandiose. The system is little more than a metal rack stuffed with Compaq's ProLiant server PCs repackaged to slide in like drawers. Its big appeal is convenience—something Compaq bets will draw companies that are struggling to get a handle on the wild proliferation of PCs and networks. "With high-speed networks all over the place, companies want to consolidate all their servers in one place," says Senior Vice-President Gary Stimac.

**FAT MARGINS.** If he's right, that could mean demand for lots of turbocharged hardware. The new server—a fully-loaded system costs over \$100,000—provides cushy gross-profit margins of 50%, nearly twice the margins of Compaq's existing servers and almost four times what it gets for desktop PCs. Which is why IBM, for one, doesn't want to lose any more corporate ac-



**STIMAC: MOMENTUM IS ON HIS SIDE**

counts. "IBM is coming on strong" with a new low-end server, says International Data Corp. analyst Susan Frankel. But, she adds, "I don't see anyone taking momentum from Compaq."

Momentum is one thing. Supporting the entire computing operation of a big company is another. To be able to do that, Compaq is investing some \$40 million this year to develop a range

of sales support services and to retrain dealers to handle complex corporate jobs. "I just don't see a PC reseller understanding how to sell this," says Neal B. Ebert, manager of technology product development with Baxter Healthcare Corp. Ebert got 4 servers from Compaq, but the deal didn't go through until the company agreed to support Baxter directly. It's a demand Compaq will hear more often. "If this box goes down, hospitals don't get their supplies," Ebert says. "That's different from losing your late word-processing document."

To convince other skeptics, Compaq may have to become more like the computer behemoths it is trying to displace. For example, it may add sales and support divisions with expertise in vertical markets, from education to health care—something IBM already offers big customers. But Compaq CEO Eckhard Pfeiffer acknowledges that "this is new territory, and we need to figure out many pieces of the puzzle."

They'll have to figure it out fast. Compaq can't persuade corporate clients that it can handle the support customers are sure to demand, it will need more than an Armada to conquer this new world.

*By Peter Burrows in Houston*



## FIRST GUTENBERG, NOW BENNY LANDA?

"digital offset" technology is shaking up the printing industry

Benjamin "Benny" Landa has just become one of the richest men in Israel. His family trust holds more than 70% of the shares in a company that went public in May with a market valuation of \$1 billion. It took 17 years to make his dream come true, and now Landa has taken his family on vacation to the wilderness of British Columbia, where his cellular phone is out of range for civilization. Time to relax. Yet there he is, at a roadside pay phone, talking to a reporter about his favorite topic: printing technology. Inks, plates, document feeders, image processors. Landa, a 47-year-old who grew up in Toronto, Canada, may be a bit obsessive about printing, but look where it has taken him. When Indigo of Rehovot, Israel, went public in the U.S. on May 15, it was the biggest-ever initial public offering of an Israeli company. Investors were wowed by a computer-controlled printing technology that Landa invented called "digital offset color."

**THE CHOICE.** The images Indigo produces are not as good as those of a conventional offset press, but they're close enough to satisfy a burgeoning market for short-fast-turnaround printing of color brochures, catalogs, documents. State Street Consultants, a Boston-based firm, estimates that there is a huge demand for \$25 billion-worth of short-run, high-quality color printing in the U.S. alone. To get an idea of how many machines that could represent, figure that one might produce \$1 million to \$2 million worth of printed materials per year. Landa has his sights set higher than the short-run market, however. With faster printing speeds, he believes, Indigo's technology will allow even large-circulation magazines to customize their printing economically, so each

reader can receive a personalized set of articles and advertising. That would land Landa in nearly every segment of printing. "By the end of the decade," he predicts, "there will be personalized printing of newspapers and magazines. We will lead that. We expect to remain alone with digital offset color."

Hmm. Indigo, the Standard Oil of printing? Perhaps not. But even if you don't swallow Landa's prognostication whole, it's clear that Indigo is tapping an underserved market for customized color printing. With its time-consuming preparation of metal plates, conventional offset doesn't make sense for full-color runs of less than several

thousand. And to date, color copiers and laser printers aren't sharp enough or fast enough. They do only a few pages a minute, vs. 30 for Indigo.

The key to Indigo's E-Print 1000 machine is its specially formulated ink. The ink becomes a plastic film when it hits the heated "blanket" cylinder (chart). The film then transfers cleanly to the paper, leaving the blanket ready for a fresh impression of ink. In other words,

each successive page can be different from the one before—the ultimate in short-run custom printing. In a conventional offset press with ordinary inks, resetting plates and cleaning blankets for new pages can take up to an hour.

**"HAPPY AS HELL."** Early customers are enthusiastic. Take Anthony Cannata Sr., president of A.C. Color Lab Inc. in Cleveland. Cannata says that since he installed two Indigo E-Print 1000 machines on May 15,

job orders have poured in from beyond his traditional metro Cleveland service area—from Connecticut, Michigan, and Washington State. A publisher recently ordered 10 copies of a 32-page mock-up of a magazine. Cannata says he got the Macintosh computer file at 10 a.m. and had the copies done by 2 p.m. Although the two machines cost him \$842,000, he says they're already earning their monthly payments. "I'm happy as hell," he says.

Indigo's product may be hot, with shipments to date of more than 45 machines. Whether the company merits a market value of \$1 billion is another matter. Investors are having qualms. The 5 million-share IPO was oversubscribed, with orders placed for 20 million shares. That's usually a sign that the stock will jump after the opening. Instead, it has dropped from 20 to around 14, lowering the market value to about \$700 million. One concern of shareholders is that superinvestor George Soros, who injected \$50 million into the company while it was still private, is entitled to receive additional shares if the market value doesn't reach \$1.768 billion by the end of 1996. Landa says the provision is irrelevant be-



LANDA: SUDDENLY, ONE OF ISRAEL'S RICHEST MEN

### SOMETHING NEW IN PRINTING

Indigo's color printing system works like an offset press but handles shorter runs—down to one of a kind. The secret is in the ink. None of it sticks to the roller after a page is printed, so the roller can produce a new image on each revolution.







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cause "it's a sure bet" that Indigo's market value will clear the hurdle.

That sure bet may not take adequate account of the competition. Indigo has stockade of 130 U.S. patents, but it is the only company going after short-run, high-quality color printing. Some, such as Xerox, Canon, Eastman Kodak, and Belgium's Xeikon, are working on lithography—using the dry toners found in conventional copiers and laser printers. Others, led by Germany's Heidelberg, are speeding up printing-preparation technology, mainly by automating preparation of inked plates.

**ON A ROLL.** Indigo's closest competitor may be Xeikon's DCP-1 digital press, which runs faster because it's fed by a roll of paper instead of separate sheets and can print on both sides at once. Indigo claims that its liquid ink gives better resolution than Xeikon's powdered toner, but some printers say the quality is comparable.

Over the long term, look out for the big copier companies. In April, Xerox Corp. showed prints from an experiment

**Indigo doesn't lack for rivals: Xerox, Canon, Eastman Kodak, and Belgium's Xeikon are nipping at its heels**

tal printing "engine" that it said would be difficult to distinguish, even under a microscope, from offset documents. The company also showed an engineering model of a production-speed printer. Xerox declines to say when it might reach market.

Analyst David S. Nelson of Lehman Brothers Inc. says serious competition for Indigo is several years away. Nelson, who is recommending Indigo shares, sees the company's sales rising from \$10 million in 1993, when shipments began, to \$82 million this year and \$238 million in 1995. On the other hand, Nelson may not be entirely impartial: His firm was the lead underwriter on the Indigo IPO. Lehman spokesman Steven H. Faig says the firm's analysts make their forecasts independently.

Whether or not Landa can live up to his underwriters' expectations, he has galvanized a printing industry that is known for rapid change. "To me," says, "the satisfaction isn't the money. Creating an upheaval in a major industry is what I get my thrill from." By that standard, he is already a success.

*By Peter Coy in New York and N. Sandler in Jerusalem*



# Developments to Watch

BY PETER COY

## YESTERDAY'S DRILLING RIG TODAY'S FISH FARM



**I**n the Gulf of Mexico, where the fishing industry's net profits have been sinking for years, a maker of commercial nets and researchers from Massachusetts Institute of Technology have come up with a new angle: oil-rig aquaculture. The idea is to keep commercially bred fish inside a tent-shaped net that's attached at the top to the upper

arm of the rig and at the bottom to the rig's pilings on sea floor. The tents contain much more water than conventional aquaculture pens, so more fish can be raised. Also, because they are in the open ocean, the water circulation is better for the fish than in shoreline or land-based pens.

Beyond that, fish farming is a good use for scores of abandoned or dormant oil rigs, says Gary Loverich, vice-president for research and development at NET Systems Inc. on Bridge Island, Wash. NET Systems and MIT's Sea Grant program are developing the idea with the help of a Commerce grant.

## TEA AND TEA: THE THING TO REFRESH SOIL

Scientists in Japan have found a way to lower the acidity of soil with the help of a bacterium they found in the earth of plantations. The rod-shaped *Flavobacterium ST-3991*, which appears soil yellow, appears to create a protein that simultaneously lowers soil acidity and absorbs harmful aluminum ions. Aluminum ions are created when acidic soil breaks down aluminum oxides.

The work was performed by a joint research team from Tokai University's Agriculture Dept. and the Kanagawa Environmental Research Center. The researchers say the bacterium could reduce plant damage from aluminum at the same time that it amplifies the effectiveness of lime, which is ordinarily used for neutralizing acidic soils. Souta, a Kanagawa researcher, says it could also neutralize acidic ponds, making them usable for irrigation.

## FOR THE OIL INDUSTRY, A DATABASE WITH SPILL-CHECKER

To figure out the best way to clean up oil spills, scientists are spending their days at the pool. At Battelle Ocean Sciences Laboratory in Duxbury, Mass., they are building a hut-shaped tank with a 29-foot circumference, complete with artificial beaches to measure the effect of wind, temperature, waves, and currents on various grades of oil and oil products. For example, heavy crude oil from Alaska will behave differently than lighter Middle East oil.

Data gleaned from the tank tests, as well as from lab tests of actual spills, will go into an oil-weathering database.

Eventually, data from a future oil spill could be plugged into a computer program to indicate within minutes the best cleanup solution: burning, chemical treatment, or physical cleanup. A basic computer model and testing methods were developed by IKU Petroleum Research in Norway, a division of the SINTEF group, a research organization much like Battelle. The Marine Spill Response Corp., a Washington (D.C.) nonprofit organization funded by the oil industry, contracted Battelle to build the tank and use IKU's technology to collect data.

## IBM SERVES UP A WHOPPER OF A MAGNETIC SANDWICH

**H**ow many digital characters can sit on a magnetic thumbtack? About 100 million, says IBM. Rivals thought Big Blue was blowing smoke last year when it predicted that so-called giant magnetoresistance (GMR) technology could produce thumbtack-size computer disk drives with 100-megabyte capacities—enough to hold more than 100 novels—by decade's end. Now, it looks as if IBM was being conservative.

Researchers at IBM's Almaden Research Center near San Jose, Calif., have just unwrapped a so-called "read/write head" that promises to stuff at least 20 times as much data onto a hard disk as today's best technology can. The current gold standard was also developed by IBM, in 1991, using ordinary magnetoresistance—similar but less potent. Since then, hard-disk capacity has been surging by 60% a year, according to market researcher Disk/Trend Inc.

Commercial versions of the experimental GMR heads, IBM says, will sense 10 billion magnetic dots per square inch. The heads' secret is an ultrathin sandwich of silver between magnetic nickel-iron "bread." Normally, the magnetic particles in the bread repel each other. But baking the sandwich and exposing it to a magnetic field causes the particles to face the same direction (BW—Apr. 18). That makes the material far more efficient at detecting magnetic spots.

## 'I'VE FALLEN AND I CAN'T ... OH, NEVER MIND'

**R**esearchers at Pennsylvania State University have developed a new design for floors that they say could dramatically limit fall-related injuries in older adults.

The new floor is firm enough to withstand ordinary walking. But it "gives," or buckles, if a person falls, with the surface conforming to the part of the body that

hits it. The floor is made up of two layers of an elastic material called urethane elastomer, with the layers separated by columns made of the same stuff. Thus it sags a bit under the weight of a heavy person or machine. At \$7 to \$10 a square foot, it costs up to four times as much as ordinary flooring, so it would be used mainly in nursing homes for people at high risk of falling. The Penn State team is developing a prototype that will be installed next spring in a central Pennsylvania nursing home.





## TAKING THE WRAPS OFF WRAP ACCOUNTS

**S**tuart Daly, a broadcasting executive who lives in New York, admits feeling pretty "smug" about his investing acumen. Three years ago, he signed up with a private money manager, Brandes Investment Partners, through Dean Witter Reynolds' fee-based consulting service, and has enjoyed returns averaging 21% a year.

Does he care that Dean Witter charges as much as 3% a year for what is known as a wrap account? Not with those kinds of returns, though he concedes it will hurt to pay the fee (which he negotiated down) if he doesn't make any money this year. "But look, I'm not naive," Daly says. "I know there are ups and downs in the market, and I'm confident it will recover, given some patience."

Daly certainly doesn't sound like a dupe. But he has bought one of the most controversial—and fastest-growing—financial programs of the '90s. To make sure he and every other investor who buys a wrap account know what they're getting into, federal regulators recently issued new consumer-disclosure rules. As of Oct. 1, program sponsors must supply new brochures to prospective wrap-fee clients. Among other points, the documents must state that the program may cost more than it would have if the investor had bought the services separately.

Wrap accounts are offered by all the largest brokerages



as well as many smaller broker-dealers, banks, and mutual fund firms. In them, brokers often renamed "investment advisers" or "financial consultants," match clients with private money managers. Increasingly, mutual funds are shaving as much as 3% off fees a year to cover the manager's fee, all transaction charges, and the ongoing advice and account monitoring that brokers provide.

**MOVING ASSETS.** That may not sound like a lot of service for one fee—and it may well be worth the price, depending on how much help you need and get from your broker and how actively he traded your account. At the bottom line is that many people are paying the fee year after year for a range of services they may only need the first year. If you just want a professional money management, you should be able to get it more economically by purchasing a mutual fund, even if you pay a one-time sales charge of 4% or 5% for a broker to help you pick one.

The many critics of wrap programs have been arguing just that for years, and yet money has flowed into the programs at an even faster rate than into mutual funds. Assets grew 45% from Mar. 31, 1993 to Mar. 31, 1994, according to Cerulli Associates, a Boston financial-consulting firm, and show no signs of slowing down despite current market volatility. In contrast, mutual funds grew at a rate of about 25%, and asset flows slowed as soon as the markets got dicey.



t the Securities & Exchange Commission has been giving wraps closely for and, though there have been a few complaints from investors, it passed rules creating a new brochure on Apr. 1. Securities firms claim they don't have this information all in one place in an easy-to-digest format. "They're just re-creating the disclosure," says Richard Grabish, manager of AG Edwards' private and business client services.

The document is designed to make sure consumers understand the full scope of the programs and get the services they are paying for. But it may prove most useful to people who are comparing programs. Firms now have to address directly a few areas that have inspired the most criticism.

First and foremost: fees. The brochure will do more to lay out the fee schedule. It will state what portion goes to the money manager—usually about 1%. For investors attached to the program primarily because of the appeal of obtaining a private money manager, it will be clear that the bulk of the fee goes to the brokerage firm.

**IS A DEAL.** Sponsors are required to say if the fees are negotiable. Brokers often reduce the 3% stated fee for accounts or under pressure from the investor. In the average fee is about 1%, says Cerulli Associates. The brochure says the fees are negotiable, negotiate. The brochure will also say if there are hidden fees. These are probably not significant and are worth knowing about. For example, if a private manager has part of the portfolio in a money-market fund, the

## QUESTIONS TO ASK A BROKER

- ▶ What percentage of your business comes from providing fee-based consulting services? (Should be at least 35%.)
- ▶ How long have you been in this line of business? (Should be seven years or more.)
- ▶ What ongoing support, research, and oversight does your firm provide?
- ▶ Can I see a sample research report on a money manager to see how thorough your firm is?
- ▶ What additional training have you received both from your firm and from outside sources?
- ▶ Have you obtained any professional designations? Accreditations, such as Certified Investment Management Consultant (CIMC) or Certified Investment Management Analyst (CIMA), are catching on.

DATA: BUSINESS WEEK

investor will still have to pay the fund's costs.

Another area of contention is how the broker goes about choosing the money manager. Disclosure required in the brochures explains how portfolio managers are chosen to participate in the firm's program, and from that limited list, specific ones are selected for clients. Firms should have "due diligence" systems set up to monitor these managers, and you can use this section in the brochure to compare programs. Find out under what conditions the firm will replace a manager. Check to see if they conduct their own research or buy it from outside companies. Before you choose a program, ask to see a sample report on a manager so you can compare the quality and thoroughness of the research.

Firms must also disclose how the manager's performance numbers are calculated. Total-return figures in private money management are notoriously easy to play with, and there are no universally

used standards for reporting performance numbers as there are with mutual funds. Money managers are famous for cherry-picking their best accounts or justifying poor performance by comparing their numbers to some obscure index. If the firm does not use the same standards to calculate returns for all managers, the brochures require they say so. Be wary of these numbers in any case.

A key nugget of disclosure lets investors know they have a right to consult directly with the money manager. If there are restrictions, the firm must spell them out. For example, you may have to contact your broker before going to the manager. The brochure will also tell you how much information about you will be passed on to the money manager. This will give you an idea just how "individualized" your account can be. If you don't intend to seek personal attention, you might as well be in a mutual fund.

Wrap programs make clear sense in some cases. First, if

there is a private money manager you like, it may be the only way you can have access to his or her services. Many such managers require a minimum account size of \$1 million, while the wrap programs often have a \$100,000 minimum. (The programs that use mutual-fund managers may have minimums as low as \$25,000.) Another reason to go into a wrap program is to maintain a close working relationship with a particular broker without worrying about getting nickel-and-dimed on transaction charges.

**ON GUARD.** Whatever you do—make sure your broker is qualified. This is one area the SEC's brochure did not address, so you will have to ask some questions yourself. Avoid brokers who do less than 35% of their business in fee-based consulting programs or who haven't been involved in this area for at least seven years, recommends Bert Meem, an investment management consultant with Dean Witter in New York.

Ask them what additional training they have received in asset allocation and portfolio management. Two industry groups have developed professional designations earned only after undergoing training and passing tests. If brokers boast a CIMC (Certified Investment Management Consultant) or CIMA (Certified Investment Management Analyst), you can at least be sure they are committed to this line of business.

As the new brochures will make clear, wrap-fee investors are paying for personalized investment advice. If that's what you want, make sure you get it. If you don't, make sure you're not paying extra for it. *Amey Stone*

## WHAT THE NEW BROCHURES WILL TELL YOU

The program's fee schedule, including what portion goes to the money manager and whether the fee is negotiable or there are hidden charges.

▶ How the portfolio managers are selected and reviewed, and the circumstances under which they will be replaced if they don't perform as expected.

▶ How the performance numbers you've been given were calculated, and whether the firm used a uniform standard for measuring returns of all managers.

▶ If the program sponsor places any restrictions on your freedom to contact your money manager, such as requiring you to call your broker first.

▶ What information about you and your investment goals the firm will pass on to the money manager and how often it will be updated.





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**U**ntil now, alternatives to Chrysler's minivans fell into two camps: First was a group of rivals on a par with Chrysler's models but available only at high prices and in limited supply. These included the Mercury Villager, Nissan Quest, Mazda MPV, and the Toyota Previa. Second were the readily available, high-volume minivans that were no match for Chrysler: Ford's Aerostar was too trucklike, while General Motors' slope-nosed minivans never caught on, despite engine and transmission improvements and even a modest nose job this year. But now, Ford will be making some 300,000 Windstar minivans a year, with features comparable to those of Chrysler vehicles—or slightly ahead.

The all-new front-wheel-drive Windstar (which does not come in a Mercury version) is slightly longer and wider than Chrysler's stretched minivans—the

## Autos

### THIS NEW MINIVAN REALLY PASSES MUSTER

Dodge Grand Caravan and Plymouth Grand Voyager. Yet it handles better. In turns, both makers' minivans lean more than a car would, but the Windstar behaves more

and the one farthest back slides forward or back seven inches to give you that little extra space you sometimes need. If you want to move



**WINDSTAR: MOVE OVER, CHRYSLER**

smoothly. The Windstar's 3.8-liter V-6 engine is also a bit less harsh, though it offers less horsepower: 155 vs. Chrysler's 162. Windstar also has wider seats and a shade more hauling capacity.

For quick loading, the two rear seat backs fold down

serious freight, however, be warned: Ford claims the two rear seats are "easily removable." Yeah, right.

The instrument panel is well laid out and puts con-

trols within easy reach of driver. There's an extra set of radio controls for passengers in the second row. (If you can't stand your kids' taste in gangsta rap, front controls override the in back.) A nifty option is automatic door-lock switch the rear door. So when you unloading groceries and your arms are full, you no longer have to walk to the driver's door to lock up. Dual air bags, antilock brakes, and adjustable shoulder anchors seat belts are standard.

Skip the optional cereal console. Wide enough to stow a laptop computer blocks your path from front to rear seats. The Windstar's base list price is \$19,455, but the most popular version and its options sell for \$27,350. That's slightly higher than competing Chrysler models, but the Windstar needn't apologize for its price tag. There's nothing "couldn't be" about it: This minivan is a contender. *Jim Tre*

## Communications

### FLYING PHONES GET CHEAPER AND SMARTER

**D**avid Bartholomew likes to keep in touch with his office and family when he travels—even when he's in the air. But although the Dallas real estate executive runs up a \$5,000 annual phone bill on planes, he isn't happy with the service. "I often get cut off," he gripes. Now, thanks to the breakup of GTE Airfone's decade-long monopoly, Bartholomew and others will find "sky calling" friendlier. They'll get better-quality calls and added services.

Competition is already having an impact on prices. GTE Airfone has been charging a \$2.50 setup charge, plus \$2.50 per minute for the call, but it's starting to offer deals. Under the new Home & Office

program, the setup and per-minute rates will run \$1.88 each for two numbers a customer picks. You can sign up on the plane by dialing "0" or in advance by calling 800 247-3663.

Not to be outdone, In-Flight Phone is junking the setup charge and going with a flat \$2 per-minute rate. Claircom Communications is retaining a \$2 setup fee but lowering its basic rate from \$2.50 to \$2 a minute. Claircom is also giving gate agents of Alaska Airlines and Southwest Airlines \$10 coupons to hand out. By sending in the coupon, passengers enter a sweepstakes for a free trip. If you're on Alaska and use a Claircom phone to order from the SkyMail catalog, you'll get 15% off.

**FAX AWAY.** All the competitors want to turn planes into flying offices. GTE Airfone has installed fax machines. In-Flight's fax system works in conjunction

### CONNECTIONS IN THE AIR

#### AIRONE

MCCAW/CLAIRCOM COMMUNICATIONS  
Northwest, Alaska, Southwest, American, Lufthansa, Air France

**\$2**  
SETUP  
CHARGE

**\$2**  
COST PER  
MINUTE

#### FLIGHTLINK

MCI/IN-FLIGHT PHONE

USAir, America West, Carnival, Continental, Saudia (Saudi Arabia), Kuwait Airways, Taca (El Salvador), Garuda Indonesia

**NONE**  
SETUP  
CHARGE

**\$2**  
COST PER  
MINUTE

#### GENSTAR

GTE/AIRFONE

United, Delta Shuttle, TWA, Sunbird, Reno Air, British Airways, Air Canada, Aero Mexico, Mexicana

**\$2.50**  
SETUP  
CHARGE

**\$2.50**  
COST PER  
MINUTE

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with a paperback-size screen above the tray table. For \$3, you can type and send a message on the screen using a keypad on a handset in the armrest. For 75¢ per quote, passengers can check stocks. For \$3, they can play games. At no charge, they can check connecting gate information or make car and airline reservations.

And starting in the fall, passengers will be able to receive calls onboard. All they have to do is swipe their credit card through the phone at their seat, which tells the ground station the person's flight number and seat number. Then the caller can dial a toll-free number and get connected to the seat.

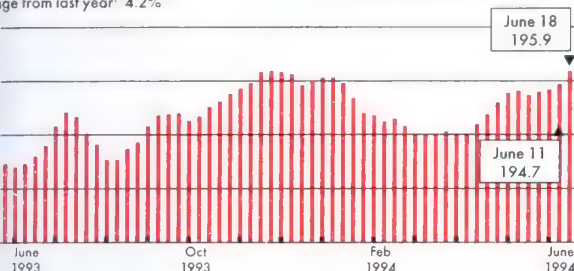
If all the innovative work as planned, frequent fliers may be less overworked. "They'll long for the days when they could say to the folks at headquarters: 'I'll call you when I land.'" *Mark Le*

# Business Week Index

## PRODUCTION

Change from last week: 0.6%  
Change from last year: 4.2%

1967=100 (four-week moving average)

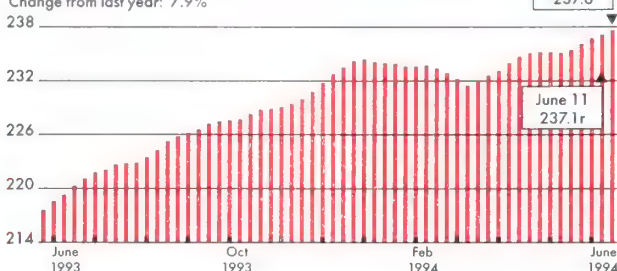


The **production index** rose in the week ended June 18. After seasonal adjustment, electric power output surged, pushed up by hot weather in the east. Paper output also rose. Production of both autos and trucks declined, as did output of steel, paper, and paperboard. Both crude-oil refining and rail-freight traffic also declined. Steel production was unchanged. Before calculation of the four-week average, the index rose to 197.7, up from 196.2 in the previous week.

BW production index copyright 1994 by McGraw-Hill Inc

## LEADING

Change from last week: 0.2%  
Change from last year: 7.9%



The **leading index** increased in the week ended June 18. On the plus side, stock prices advanced for the fifth consecutive week, and the growth rate of prices of raw materials accelerated. Offsetting some of those gains, bond yields rose, while the pace of both real estate loans and the M2 money supply slowed. Business failures and initial jobless claims were not available. Before calculation of the four-week average, the index dipped to 238.1 from 238.2 in the week before.

Leading index copyright 1994 by Center for International Business Cycle Research

## PRODUCTION INDICATORS

|                                                  | Latest week | Week ago  | % Change year ago |
|--------------------------------------------------|-------------|-----------|-------------------|
| (6/25) thous. of net tons                        | 1,906       | 1,917#    | 4.4               |
| STEEL (6/25) units                               | 132,113     | 136,765r# | 0.7               |
| IRON (6/25) units                                | 115,187     | 113,165r# | 15.3              |
| ELECTRIC POWER (6/25) millions of kilowatt-hours | 69,236      | 68,475#   | 8.8               |
| CRUDE-OIL REFINING (6/25) thous. of bbl./day     | 14,344      | 14,128#   | 1.4               |
| (6/18) thous. of net tons                        | 19,228#     | 19,770    | 1.4               |
| PAPERBOARD (6/18) thous. of tons                 | 833.4#      | 873.2r    | -0.1              |
| PAPER (6/18) thous. of tons                      | 789.0#      | 804.0     | -5.2              |
| RAIL-FREIGHT (6/18) millions of ft.              | 497.5#      | 481.7     | 8.5               |
| TRUCK-FREIGHT (6/18) billions of ton-miles       | 22.2#       | 22.7      | 2.8               |

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA<sup>1</sup>, SFFPA<sup>2</sup>, Association of American Railroads

## FOREIGN EXCHANGE

|                          | Latest week | Week ago | Year ago |
|--------------------------|-------------|----------|----------|
| YEN (6/29)               | 99          | 101      | 108      |
| MARK (6/29)              | 1.58        | 1.60     | 1.68     |
| POUND (6/29)             | 1.55        | 1.53     | 1.51     |
| FRANC (6/29)             | 5.43        | 5.48     | 5.72     |
| DIAN DOLLAR (6/29)       | 1.38        | 1.39     | 1.29     |
| FRANC (6/29)             | 1.33        | 1.35     | 1.51     |
| PESO (6/29) <sup>3</sup> | 3.387       | 3.376    | 3.125    |

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pounds expressed in dollars

## PRICES

|                                                   | Latest week | Week ago | % Change year ago |
|---------------------------------------------------|-------------|----------|-------------------|
| (6/29) \$/troy oz.                                | 385.500     | 392.450  | 1.9               |
| SCRAP (6/28) #1 heavy, \$/ton                     | 111.50      | 111.50   | 0.0               |
| STUFFS (6/28) index, 1967=100                     | 210.1       | 215.1    | 3.9               |
| IRON (6/25) ¢/lb.                                 | 116.4       | 114.8    | 30.8              |
| IRON (6/25) ¢/lb.                                 | 70.0        | 68.0     | 27.9              |
| IRON (6/25) #2 hard, \$/bu.                       | 3.47        | 3.72     | 9.8               |
| IRON (6/25) strict low middling 1-1/16 in., ¢/lb. | 76.46       | 78.32    | 39.6              |

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Research, Kansas City market, Memphis market

## LEADING INDICATORS

|                                            | Latest week | Week ago   | % Change year ago |
|--------------------------------------------|-------------|------------|-------------------|
| STOCK PRICES (6/24) S&P 500                | 450.47      | 460.49     | 1.0               |
| CORPORATE BOND YIELD, Aaa (6/24)           | 8.02%       | 7.94%      | 10.0              |
| INDUSTRIAL MATERIALS PRICES (6/24)         | 102.7       | 102.7      | 7.2               |
| BUSINESS FAILURES (6/17)                   | NA          | NA         | NA                |
| REAL ESTATE LOANS (6/15) billions          | \$426.9     | \$427.3    | 3.7               |
| MONEY SUPPLY, M2 (6/13) billions           | \$3,546.2   | \$3,549.2r | 1.8               |
| INITIAL CLAIMS, UNEMPLOYMENT (6/11) thous. | 349         | 359        | 1.2               |

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

## MONTHLY ECONOMIC INDICATORS

|                                               | Latest month | Month ago | % Change year ago |
|-----------------------------------------------|--------------|-----------|-------------------|
| NEW HOME SALES (May) annual rate, thous.      | 738          | 708       | 16.2              |
| CONSUMER CONFIDENCE INDEX (June)              | 92.0         | 88.9r     | 57.0              |
| EXISTING HOME SALES (May) millions            | 4.09         | 4.12      | 13.3              |
| ORDERS FOR DURABLE GOODS: MFG. (May) billions | \$148.4      | \$147.0   | 17.0              |

Sources: Commerce Dept., Conference Board, National Assn. of Realtors

## MONETARY INDICATORS

|                                      | Latest week | Week ago   | % Change year ago |
|--------------------------------------|-------------|------------|-------------------|
| MONEY SUPPLY, M1 (6/13)              | \$1,145.9   | \$1,145.2r | 7.1               |
| BANKS' BUSINESS LOANS (6/15)         | 293.5       | 291.1r     | 5.3               |
| FREE RESERVES (6/22)                 | 636         | 883r       | 3.6               |
| NONFINANCIAL COMMERCIAL PAPER (6/15) | 159.2       | 152.9      | -2.9              |

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

## MONEY MARKET RATES

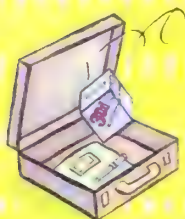
|                                        | Latest week | Week ago | Year ago |
|----------------------------------------|-------------|----------|----------|
| FEDERAL FUNDS (6/28)                   | 4.21%       | 4.14%    | 3.13%    |
| PRIME (6/29)                           | 7.25        | 7.25     | 6.00     |
| COMMERCIAL PAPER 3-MONTH (6/28)        | 4.72        | 4.55     | 3.25     |
| CERTIFICATES OF DEPOSIT 3-MONTH (6/29) | 4.75        | 4.55     | 3.18     |
| EURODOLLAR 3-MONTH (6/24)              | 4.51        | 4.45     | 3.21     |

Sources: Federal Reserve, First Boston

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. <sup>1</sup>Western Wood Products Assn. <sup>2</sup>Southern Forest Products Assn. <sup>3</sup>Free market value NA=Not available r=revised NM=Not meaningful



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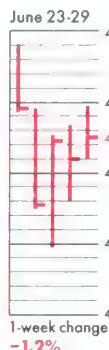
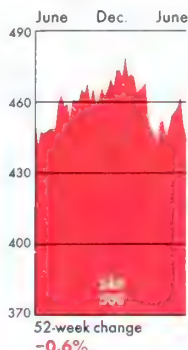
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# Investment Figures of the Week

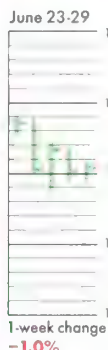
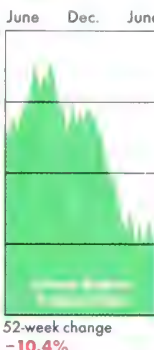
## CURRENCY

The dollar and the yen battled it out in the currency markets—and with central bankers on its side, the greenback lost. The dollar fell to a historic low. The slide of the dollar triggered another wave of selling in the U.S. financial markets. Small-cap stocks took a much heavier drubbing than the larger cap stocks. Bonds plunged with the yield on the 30-year Treasury bond jumping to

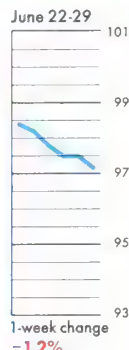
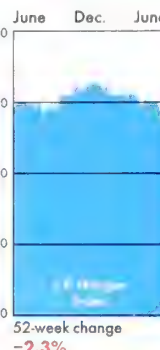
## STOCKS



## BONDS



## THE DOLLAR



## MARKET ANALYSIS

|                                         | Latest   | Week | % change<br>52-week |
|-----------------------------------------|----------|------|---------------------|
| <b>INDUSTRIALS</b>                      |          |      |                     |
| DOW JONES INDUSTRIALS                   | 3667.1   | -1.5 | 4.3                 |
| INDUSTRIAL COMPANIES (S&P MidCap Index) | 165.0    | -0.9 | -1.8                |
| SMALL-CAP COMPANIES (Russell 2000)      | 240.2    | -2.1 | 2.9                 |
| COMPANIES (Russell 3000)                | 256.6    | -1.3 | -0.9                |
| <b>FINANCIAL STOCKS</b>                 |          |      |                     |
| DOW JONES FINANCIAL TIMES 100           | 2946.3   | -0.5 | 1.6                 |
| FINANCIAL COMPANIES (NIKKEI INDEX)      | 20,481.0 | -0.5 | 4.5                 |
| FINANCIAL COMPANIES (TSE COMPOSITE)     | 4028.2   | -0.6 | 1.6                 |

## FUNDAMENTALS

|                              | Latest | Week ago | Year ago |
|------------------------------|--------|----------|----------|
| 90-DAY TREASURY BILL YIELD   | 4.23%  | 4.26%    | 3.09%    |
| 30-YEAR TREASURY BOND YIELD  | 7.51%  | 7.39%    | 6.67%    |
| S&P 500 DIVIDEND YIELD       | 2.82%  | 2.78%    | 2.77%    |
| S&P 500 PRICE/EARNINGS RATIO | 19.9   | 20.2     | 22.7     |

## TECHNICAL INDICATORS

|                                           | Latest | Week ago | Reading  |
|-------------------------------------------|--------|----------|----------|
| S&P 500 200-day moving average            | 461.5  | 461.8    | Negative |
| Stocks above 200-day moving average       | 27.0%  | 33.0%    | Positive |
| Speculative sentiment: Put/call ratio     | 0.54   | 0.47     | Positive |
| Insider sentiment: Vickers sell/buy ratio | 1.04   | 0.99     | Positive |

## INDUSTRY GROUPS

### MONTH LEADERS

|                             | 1-month | % change<br>12-month |
|-----------------------------|---------|----------------------|
| WELL EQUIPMENT AND SERVICES | 4.1     | -11.2                |
| ACCOR                       | 3.6     | 3.3                  |
| FINES                       | 3.4     | -9.2                 |
| TOGRAPHY IMAGING            | 2.6     | NM                   |
| L                           | 2.4     | 15.3                 |

### MONTH LAGGARDS

|                       | 1-month | % change<br>12-month |
|-----------------------|---------|----------------------|
| ELS AND MOTELS        | -13.1   | 7.7                  |
| HINE TOOLS            | -12.9   | -20.3                |
| MUNICATIONS EQUIPMENT | -9.9    | -10.7                |
| PAPER PUBLISHING      | -8.1    | 0.6                  |
| D WHOLESALE           | -8.0    | 1.9                  |

### Strongest stock in group

|                         | 1-month | % change<br>12-month | Price  |
|-------------------------|---------|----------------------|--------|
| McDERMOTT INTERNATIONAL | 20.9    | -16.9                | 24 3/8 |
| UST                     | 8.7     | -4.3                 | 28     |
| AMR                     | 6.4     | -6.3                 | 58     |
| EASTMAN KODAK           | 3.0     | 17.6                 | 47 7/8 |
| INLAND STEEL INDUSTRIES | 7.4     | 23.8                 | 34 1/2 |

### Weakest stock in group

|                    | 1-month | % change<br>12-month | Price  |
|--------------------|---------|----------------------|--------|
| PROMUS             | -24.6   | -9.0                 | 28 3/8 |
| GIDDINGS & LEWIS   | -26.7   | -26.7                | 15 3/4 |
| DSC COMMUNICATIONS | -14.9   | -23.7                | 18 7/8 |
| DOW JONES          | -13.4   | 13.5                 | 31 1/2 |
| McKESSON           | -14.5   | 60.7                 | 72 1/2 |

## MUTUAL FUNDS

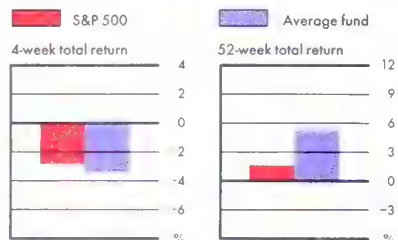
### RS

|                             | Week total return | % |
|-----------------------------|-------------------|---|
| ED SERVICES GOLD            | 11.1              |   |
| NGTON STRATEGIC INVESTMENTS | 11.0              |   |
| JAPANESE SMALL COMPANY      | 7.4               |   |
| k total return              |                   | % |
| RILL LYNCH TECHNOLOGY A     | 46.0              |   |
| FUND INTERNATIONAL          | 42.3              |   |
| ACO EMERGING MARKETS INSTL. | 41.4              |   |

### LAGGARDS

|                                        | Four-week total return | % |
|----------------------------------------|------------------------|---|
| FIDELITY SELECT SOFTWARE & COMPUTER    | -13.5                  |   |
| OVB EMERGING GROWTH A                  | -12.5                  |   |
| THOMSON OPPORTUNITY B                  | -10.4                  |   |
| 52-week total return                   |                        | % |
| MONITREND GOLD                         | -36.1                  |   |
| STEADMAN OCEANOGRAPHIC TECHNOLOGY      | -29.9                  |   |
| KEYSTONE AMERICA HARTWELL EMERG. GR. A | -24.8                  |   |

MORNINGSTAR INC.



## RELATIVE PORTFOLIOS

Amounts represent the present value of \$10,000 invested one year ago in portfolio. Figures indicate percentage total returns.

**Foreign stocks**  
\$12,523  
+1.35%

**Gold**  
\$10,214  
-0.96%

**Money market fund**  
\$10,201  
+0.05%

**U.S. stocks**  
\$10,174  
-1.17%

**Treasury bonds**  
\$9,811  
-0.20%

on this page are as of market close Wednesday, June 29, 1994, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close

June 28. Mutual fund returns are as of June 24. Relative portfolios are valued as of June 28. A more detailed explanation of this page is available on request. r = revised NM = Not meaningful



## THE DOLLAR: DON'T RAISE INTEREST RATES

**W**hich world currency has risen, on a trade-weighted basis, more than 4% in the past year? The strong Japanese yen? The powerful German mark? Nope, it's the U.S. dollar. Surprising as it may seem, given the hysteria in the financial markets, the dollar appears to be doing rather well.

Sure, the dollar is down about 8% against the yen since a year ago, but a dollop of economic savvy will show that the real story lies in the strength of the buck vis-à-vis the rest of its trading partners. Japan absorbs only 15.6% of all U.S. foreign trade, according to the Dallas Federal Reserve. Canada takes 20% of U.S. trade, and the dollar is up 10.9% against the Canadian currency from May, 1993, to May, 1994. Europe takes 25% of America's foreign trade. Yet from May to May, the dollar is up 5% against an average of Europe's currencies. PACNIC, or the Pacific Newly Industrial Countries, absorbs 18% of U.S. trade—more than Japan. The dollar? It's up 5.5% against their currencies. The dollar is also up 1% against the Mexican peso and 8.9% against the rest of Latin America's currencies. So much for the dollar crisis.

Indeed, the current roiling in the currency markets is really a "yen crisis." Almost half of the \$150 billion U.S. merchandise trade deficit is in autos and consumer electronics—much of that imported from Japan. This trade imbalance has so far proved impermeable to a currency solution. Japan's markets are simply more closed than those in the U.S. or Europe. A drop in the dollar from 280 to 100 yen over the past decade has not solved the problem (page 34).

Political instability aggravates the yen crisis. Japan has had four governments in 12 months. Leadership paralysis has blocked deregulation, a tax cut, and pump-priming, all designed to boost growth, hike imports, and ease pressure on the yen. The bizarre choice of a Socialist, Tomiichi Murayama, as new Prime Minister, can only prolong the deadlock.

What should Washington do? The big question buzzing through the Clinton Administration is whether the U.S. should act to bolster the dollar, even if it jeopardizes the country's economic recovery. The simple answer is "no." Federal Reserve Chairman Alan Greenspan should continue to pursue the domestic goals of price stability and economic growth. With auto sales already softening and the economy slowing, another big rate hike could tip the U.S. back into recession. To solve Japan's yen crisis? It makes no sense.

Like old generals looking backward, not forward, traders are oblivious to the recent changes in the U.S. economy that actually make the dollar undervalued. They are blind to the growth in productivity. They can't see the dramatically shrinking federal budget deficit, smaller as a percentage of gross domestic product than either Japan's or Germany's. They would acknowledge that the U.S. is now the low-cost producer of most industrial goods.

The facts are that inflation remains subdued at 2%, higher commodity prices are not being passed on to consumers, and a lower dollar is not leading to a price surge.

This doesn't mean that the Clinton Administration brought with virtue. Talking down the dollar last year undercut confidence, and it was a mistake. But despite its foreign policy mess, the Administration has been essentially correct in its international economic policy. The White House has been cautious and forceful in promoting exports and opening foreign markets. Until Tokyo takes responsibility for its gargantuan surplus, currency markets will remain in turmoil.

As for the bond and currency traders, they will eventually learn that economic fundamentals are more important than the coffee beans. If the Fed focuses on these fundamentals, it can guide the U.S. and the world into years of economic growth. If it caves in to the pressure, recession is a real and present danger.

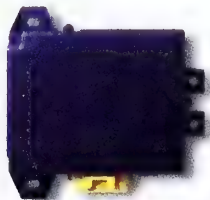
## IN THE HEARTLAND, NEW MIDDLE GROUND

**J**ust as powerful centrifugal forces rip through the Republican and Democratic parties, a bipartisan consensus is being built in the heartland of America. Mayors and governors of both parties are quickly moving toward a centrist economic and political program that calls for entrepreneurial-minded governments to actively help companies grow. The aggressively probusiness public-private partnership of the 1990s is the antithesis of the high-tax, heavy-regulation policies of the 1980s (page 116).

Building on the region's famous "can do" pragmatism, Midwestern states are in the forefront of worker-training programs, setting up manufacturing extension services, promoting exports, and actively soliciting investments from abroad. Many of the Clinton Administration's new economic initiatives are already in place in Midwest states.

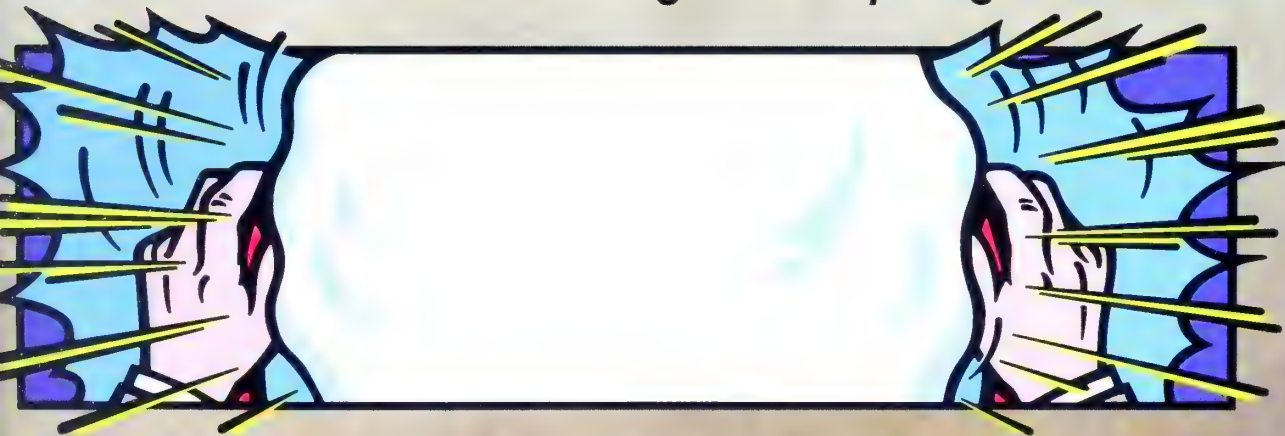
Vice-President Al Gore's "reinventing government" initiative, for example, is well along in Indianapolis, where Mayor Stephen Goldsmith has let out to bid public services ranging from garbage collection to pothole filling. Deere & Co. is using \$1.4 million worth of Illinois state grants to train suppliers in methods that will improve quality. And, through special legislation, Iowa has made Des Moines a global insurance mecca, home to 200 insurance companies employing 21,000 people.

The rebounding of the American Midwest is a reminder of how productive a partnership can be between efficient government and dynamic business. With the center having a difficult time holding within the Republican and Democratic parties, the bipartisan consensus being built in the heartland points the way to a practical and promising future.



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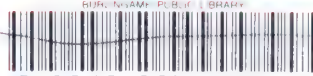
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## THE GEE-WHIZ COMPANY



### SILICON GRAPHICS

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*Klaus Besier, CEO, SAP America,  
Teams Up With Digital's Alpha AXP*



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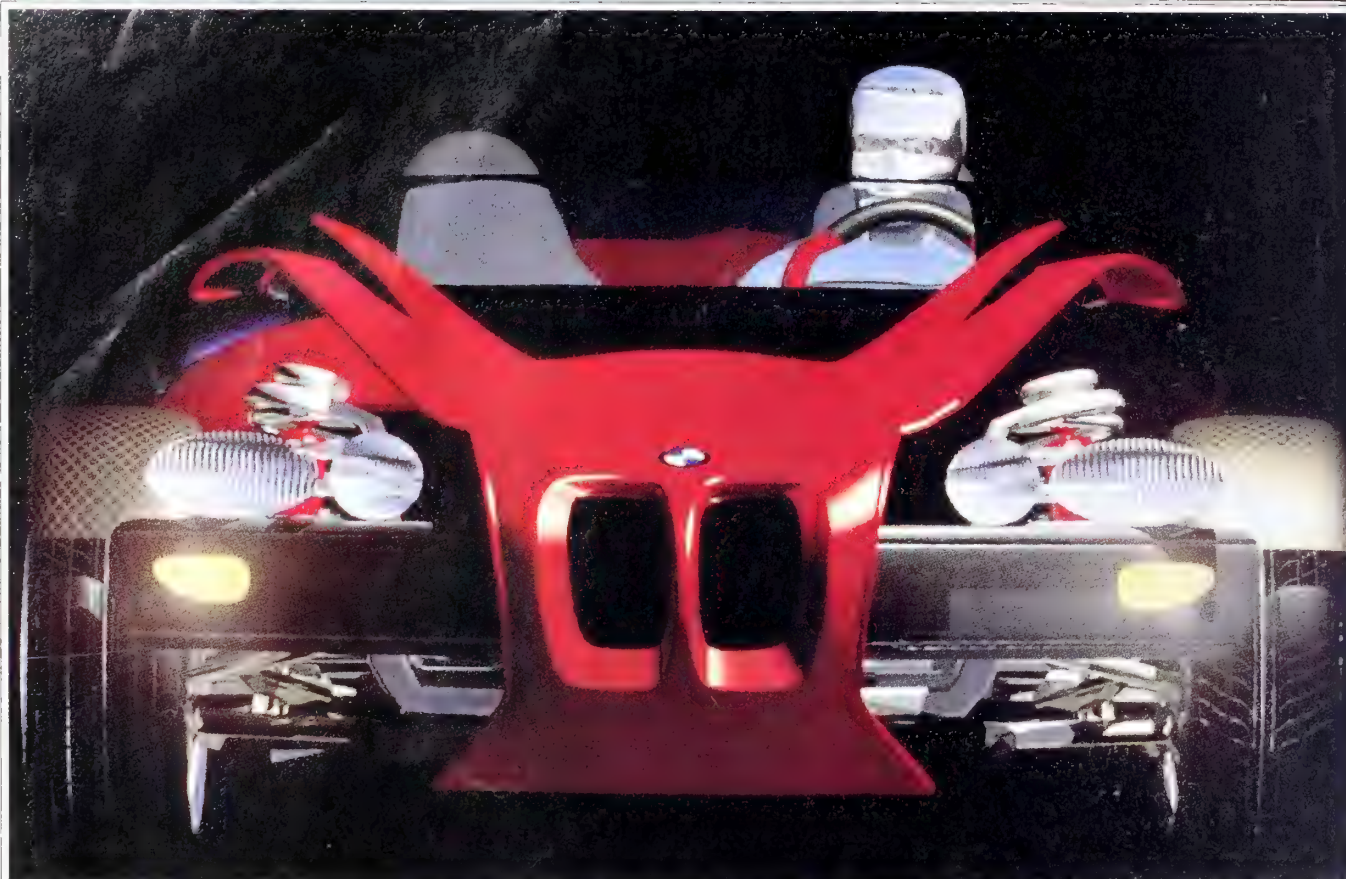
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ULTIMATE DRIVING FANTASY: THE MAINSTAY OF SGI'S BUSINESS ISN'T HOLLYWOOD OR MADISON AVENUE BUT AUTOS AND AVIATION

## Cover Story

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Silicon Graphics' Ed McCracken has come up with the hottest boxes in the Valley, thanks to the coolest visual effects around. In an industry known for piling on hype, SGI is the genuine article: An innovative outfit with clearly unique products. Not since Apple have the creations of a single computer company so captured the public imagination or promised so much for the future

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Some computer companies have customers. Silicon Graphics has a cult

**ON THE COVER:** Photo illustration by Tom Cushwa, created on an SGI Indy using Adobe Photoshop and Alias Power Animator. Photograph of Ed McCracken by William Mercer McLeod; "Man and Energy" by Entertopia, Angel Studios/Supertech Productions; dinosaur by Universal City Studios & Amblin; car by Analytical Methods/Silicon Graphics; The Great Ish by Dan Raabe/Alias

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# Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER



YOGI: 1995 will be his year

## SHOW BIZ

### SMARTER THAN THE AVERAGE TED

So we've met the Flintstones. Again. Next year comes Yogi Bear, the picnic-basket-snatching bruin from Jellystone National Park. To Turner Broadcasting—which in 1991 bought Yogi, Fred, Barney, and the rest of the Hanna-Barbera clan—the characters are brands to be unleashed in yearly doses. Ted Turner's marketing staff has signed up more than 1,000 licensing partners, roughly double the number it inherited.

The Flintstones get 1994: Their prehistoric suburban comedy is a box-office hit

from Universal Pictures. And 1995 belongs to the food-obsessed Yogi. Get ready for Yogi neckties, Yogi T-shirts, Yogi videos, Yogi-head bottle-tops on Log Cabin Syrup. Unlike the Flintstones, though, Yogi won't have a full-length feature. The next Hanna-Barbera big-screen release arrives in 1996, with a live-action film of the boy adventurer Jonny Quest (produced by *Lethal Weapon's* Richard Donner). Jonny also gets 65 new animated episodes that will update the old TV cartoon series.

The goal is to introduce the characters to a new generation of youngsters, bring back older fans, and create new revenue streams for Turner. Good marketing is clearly a must after the major disappointment of pre-Turner HB's *Jetsons: The Movie* (1990). *Jonathan Berry*

## BIG BROTHERS

### MELLON BANK JUST SAYS NO

Random drug tests have been the rage for several years for workers whose impairment poses a physical danger to themselves and others—truck drivers, for instance. But now, unscheduled tests are spreading to the

## TALK SHOW

*I've known Barry for quite a long time. I used to make fun of him when he was at Fox.*

—Howard Stringer, president of CBS Broadcast Group, on Barry Diller, his boss if QVC merges with CBS

## THE GLOBAL ECONOMY

### THE GREAT CHINESE TALENT HUNT

As investment banks, pharmaceutical giants, and other multinationals pour millions into China, they are frantically scouring the region



LEUNG: The Citibank exec is a hot item

for executives. That's not easy: Top execs with Chinese backgrounds fetch high salaries and luxurious perks—and are hard to hold on to. The

ideal candidate has experience in both Asia and the West. Executives from Hong Kong or Taiwan with U.S. university degrees and stints with multinational in Asia are the hottest prospects.

Take Margaret Ren. In her mid-thirties, she has a master's in management from Massachusetts Institute of Technology, went to Kidder Peabody, and now is Bear Stearns's Hong Kong office, doing deals with Chinese companies.

Or Antony Leung, who advises both the Chinese and Hong Kong governments for Citibank. Leung, 42, is fluent in Mandarin, Cantonese, and

English. Headhunters are hot for him, yet Leung says he isn't leaving, at least for now. "As long as my job is fun, I stay." *Joyce Barnath*

## REALITY CHECK

**THE AMA SAYS** physicians don't make that much money after all. To prove it, the trade group is changing its math: In 1995, it will include the salaries of 86,468 medical residents when figuring the average doctor's salary. Residents earn

\$20,000 to \$30,000 a year, so that should lower the average physician's \$177,000 salary considerably. Above the resident level, there are 564,000 doctors. The American Medical Assn. says critics ignore years of low-paid training.

**IN REALITY**, the new formula is a public-relations dodge equivalent to including the subsistence stipends of graduate students when figuring the average university professor's salary. "You don't fix the problem of high salaries by adding in a new factor," says Dr. Sidney Wolfe, director of Public Citizen Health Re-

search Group in Washington. Fiddling with the formula will only interfere with researchers' ability to track the average physician's income on an apples-to-apples basis, he says. Plus, jiggering the math is unlikely to take the health-care-reform heat off specialists who earn much more than the average GP. *Susan Chandler*

problem to inspire the police still fears zoned-out workers making financial errors. The tests will affect tellers a lot, although they will occur at all levels of the bank, Mellon says. Testing, the bank says, also will deter drug use.

Many major companies, including banks, already test for drug before hiring or when a worker exhibits symptoms of abuse. Random checks, say the American Management Assn., are most prevalent in transportation (75% of companies surveyed), government (48%), and manufacturing (31%). Financial services? Only 3.5%. Since banker drug abuse isn't a physical threat to clients, American Civil Liberties Union senior fellow Milin Shah calls the new drug test "an unjustified invasion of privacy." *Keith L. Alexander*





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MORE EFFICIENTLY THROUGH ONE NETWORK.**

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## SMOKE SIGNALS

### A SIN TAX ON—ORANGES?

**N**orth Carolina feels a mite picked on these days with all the attacks directed at the tobacco industry. But when Florida recently passed a law allowing the state to sue tobacco companies to recover Med-



icaid costs for illnesses linked to the weed, it was too much for some Tarheel lawmakers.

A 2¢-per-fruit tax on oranges and other citrus is wending its way through the North

Carolina legislature, passing the state Senate's agriculture committee June 21. (Juice isn't affected.) With the average orange costing 25¢, the levy isn't likely to make many kick the citrus habit.

The \$5 million in projected annual revenue would go to retrain tobacco workers and help tobacco farmers diversify crops. "The attacks on the tobacco industry are not attacks on faceless corporations," says North Carolina State Senator Alexander "Sandy" Sands, the bill's sponsor, who is running for Congress. The state's tobacco industry provides 100,000 jobs, with a \$1.8 billion payroll.

Florida ships 3% of its 2 million cartons of citrus fruit to North Carolina. Says Mary Hartney, manager of public affairs for Florida Citrus Mutual, which represents 12,000 growers: "How can you consider a sin tax against something as healthy and nutritious as citrus?" *Gail DeGeorge*

## CAREER MOVES

### NOW, A RAT RACE TO THE KITCHEN

**H**undreds of Corporate America's downsizing casualties are taking refuge in the kitchen. Culinary schools report big influxes of layoff victims, all seeking new careers in a growing industry as chefs. Restaurants come and go, but the overall trend

many of them refugees from the corporate life. That's up significantly from four years ago. Beginning chefs make \$20,000 to \$40,000 yearly to start—and can expect to earn \$50,000 to \$100,000 in 10 years, the schools say.

Grads of New York Restaurant School's one-year program get an average of three job offers.

That has an appeal to students such as Susan Cronin, 30, who recently lost her \$57,000 sales-rep job at IBM after eight years. "I want

to take control of my own career," she says. She aims to start as a pastry chef, getting half her old salary. Still, it's employment. And eventually, says Cronin, she will own her own bakery. *Charlie Green*

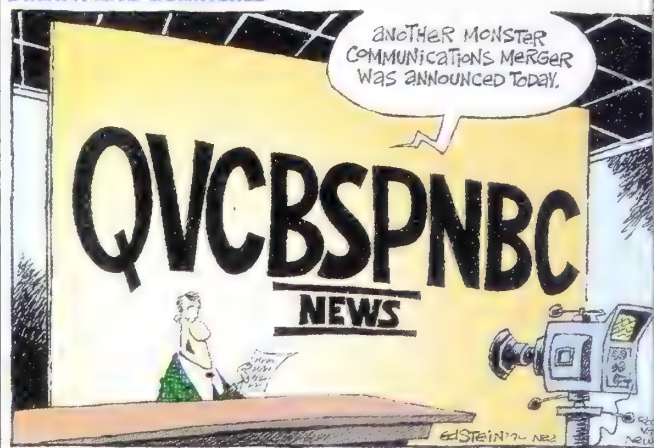


**NEW HATS:** Chefs in training

in cookery is up. According to Census Bureau projections, food-service employment will grow 31% by 2005.

At the Culinary Institute of America in Hyde Park, N.Y., 15% of the 2,025 students are career-changers,

## DRAWN AND QUARTERED



## MAD AVE

### SITTING PRETTY IN A WHEELCHAIR

**S**ome of the hottest models at Manhattan's McDonald/Richards Model Management are stunning, slender—and in wheelchairs. Major retailers are routinely using disabled models in ads and catalogs of late. An example: The Stern's department-store chain recently featured paraplegic model Kitty Lunn in an ad layout for sportswear. Aside from her wheelchair, she blended in with the able-bodied models on the page.

McDonald/Richards, the leader in this field, began with two disabled models two



**NO HANDICAP:** Disabled model

years ago; now, it has a special division with 50. Major clients include Macy's, Hecht's, Dayton-Hudson, Target, and Kmart. Vesta Taler, a smaller casting and modeling agency, has a dozen

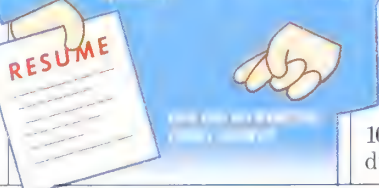
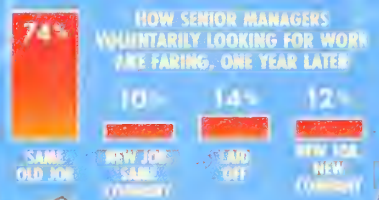
Superagencies such as Ford and Elite each employ a few. Mostly, the models are in wheelchairs or leg braces; other disabilities, such as blindness, are tougher to portray.

The point is to show the disabled as part of everyday life. But including them in ads isn't just altruism. The 43 million Americans with disabilities have a total income of some \$700 billion, representing an untapped market. When Target used a wheelchair-bound child model clothes in Sunday circulars this spring, it got 100 letters of praise from the disabled and their families.

## THE BIG PICTURE

### THE LONG SEARCH

Want a new job? Get over it. A recent survey of more than 1,200 senior managers found that few of those looking a year ago now have new jobs. In fact more people were laid off than found a job with a new company.



## FOOTNOTES

Shoe imports (nonathletic), '94 first quarter vs. year-ago period: From Taiwan, down **36%**; Korea, down **51%**; Brazil, up **22%**



The Mercedes-Benz S-Class has been called  
“arguably the best car in the world.”\*  
This should put an end to any arguments.

It stands to reason that the new Mercedes-Benz S-Class would attract the most demanding drivers in the world.

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And since the introduction of the

Introducing the  
1995 S-Class

S-Class, fuel efficiency has been increased by 16%.

Front seat belts equipped with Emergency Tensioning Retractors take up slack in a split second during certain frontal accidents. They also automatically adjust for comfort.

Even the headlights have not only been restyled but their low beams focus

35% more light on the road ahead.

These feats of engineering refinement result in a car that simply has no parallel.

And while there will always be arguments otherwise, we know of only one way to respond. Test drive an S-Class. For more information call 1-800-FOR-MERCEDES.



The New S-Class



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## CLEARING UP THE RECORD ON HILLARY'S TRADES

Your article regarding Hillary Clinton's commodity trading, "The more Hillary tries to explain..." (Up Front, July 4) is both unfair and inaccurate.

You assert that her initial trade, a short sale, "seems to contradict" her "claim" at her Apr. 22 press conference that she began trading because a close friend predicted a bull market. The innuendo is reinforced by a quote from a "Merc insider" that it is "unheard of for a novice to go short on a first trade."

There is no contradiction whatsoever between her first trade and what she said to the news media. A general belief that there will be a cattle shortage does not mean that every trade should be a long one. It is ludicrous to state categorically that a beginning trader never sells short.

You state, correctly, that it has been widely reported that her initial trade was undermargined, but, in order to justify a rehash of this reporting, you claim it has been "overlooked" that half of her initial investment could have gone for commissions. There is nothing "new" about this "news," since this was part of the risk in being undermargined.

Finally, you say "the Merc has not released all the records it has on Mrs. Clinton's trades." This is simply false. I asked for, and was told I was given, all the information the Merc had on her trades. What you [are referring to] is data for other people. There are legal constraints on the release of personal financial information regarding commodity trading. Mrs. Clinton has voluntarily sought and made public her own trading records at the Merc, even though she had not previously seen them and was under no legal compulsion to do so. She went the extra mile in seeing that they were made public, once their existence became known. Fair reporting would have provided this context.

David E. Kendall  
Williams & Connolly  
Washington

*Editor's note: Information concerning cus-*

tomers on the other end of Clinton's trades could determine whether she received preferential treatment from her broker, e.g., crediting her with profitable trades and signing losses to other customers.

## HOW CATALINA CUSTOMIZES ITS COUPONS

I enjoyed reading "Coupon clipper" (save your scissors) (Information Processing, June 20) and agree that a bright future exists for electronic marketing.

Contrary to an implication in the article, Catalina Marketing Corp. does offer an in-store electronic database marketing program that targets consumers based on past purchase data. Our Checkout Direct program, reaching more than 5 million households, captures individual shopper purchase information when they use a retailer's check-cashing, frequent shopper, or other card. The program builds a database, segmenting users according to individual volume and brand buying patterns and delivering customized before-the-next-purchase coupons.

George G. Fenn  
President  
Catalina Marketing Corp.  
St. Petersburg, Fla.

## MAIL FROM THE POSTMASTER GENERAL

Professor Gary Becker's "Neither rain nor sleet nor good idea shall shake up the postal system" (Economic Viewpoint, June 20) stunned me with its inaccuracies. Some corrections:

■ Postmasters have not been politically appointed since 1971.

■ The expedited-mail marketplace was started by the U.S. Postal Service in 1970 and not by Federal Express Corp. Indeed, we helped Federal Express start the 1970s when it carried U.S. mail.

■ The Postal Service was involved in the early development of E-mail. In January, 1982, we pioneered E-Com. Like others, most notably MCI Communications Inc., we found that E-Com was product ahead of its time.

Becker also notes that "after the experience of the past 50 years, few rational people anywhere" would ad-

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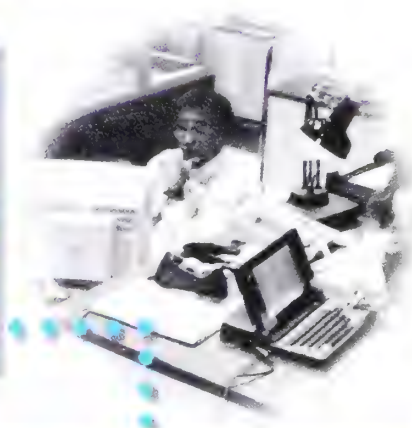
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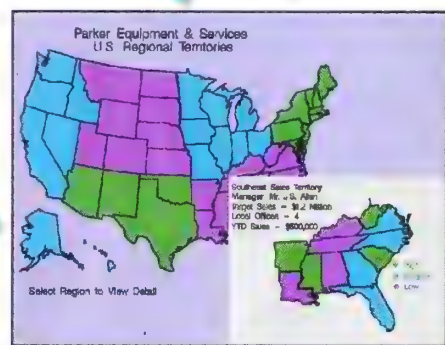
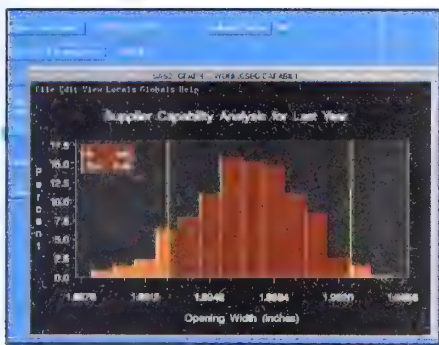


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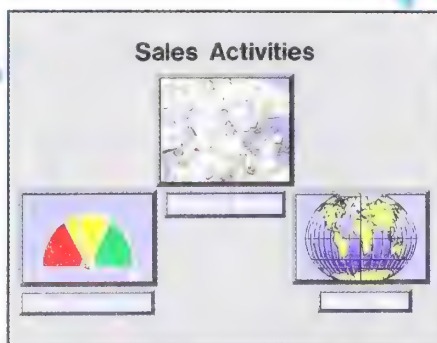


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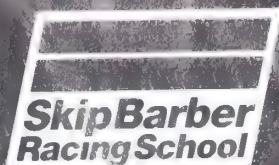


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## Readers Report

### CORRECTIONS & CLARIFICATIONS

In "What's the word in the lab? Colaborate" (R&D Scoreboard, June 27) R&D expenses listed for Immunes Corp. included a one-time \$346.4 million expense related to its merger with a unit of American Cyanamid Co. Excluding that expense, R&D would be \$72.5 million, R&D per employee would be \$92,711, and R&D as a percent of sales would be 59%.

"Wonder Chips" (Special Report, July 4) misspelled the name of Larry Rabiner, director of information principles research at Bell Labs. The photo caption with the sidebar, "Will we keep getting more bits for the buck?" failed to identify Mark C. Melliar-Smith, the chief technical officer of AT&T Microelectronics.

cate a government mail monopoly. He also says "dissatisfaction is widespread with the Postal Service. The most recent sampling by Opinion Research Corp. shows that 85% of Americans rate the post office as good, very good or excellent.

For all its flaws, the Postal Service is a true government success story: a \$5 billion a year, self-sufficient agency that has not taken a Congressional subsidy since 1982. I felt less threatened by competitive forces during my career at Ford Motor Co. and Nissan America than I do heading the Postal Service. As someone who joined the organization after a private sector career spanning four decades, I believe the Postal Service serves America and American businesses well. Along with our leadership team I am working hard to increase reliability, credibility, and competitiveness.

Marvin Runyon  
Postmaster General, CE  
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Washington

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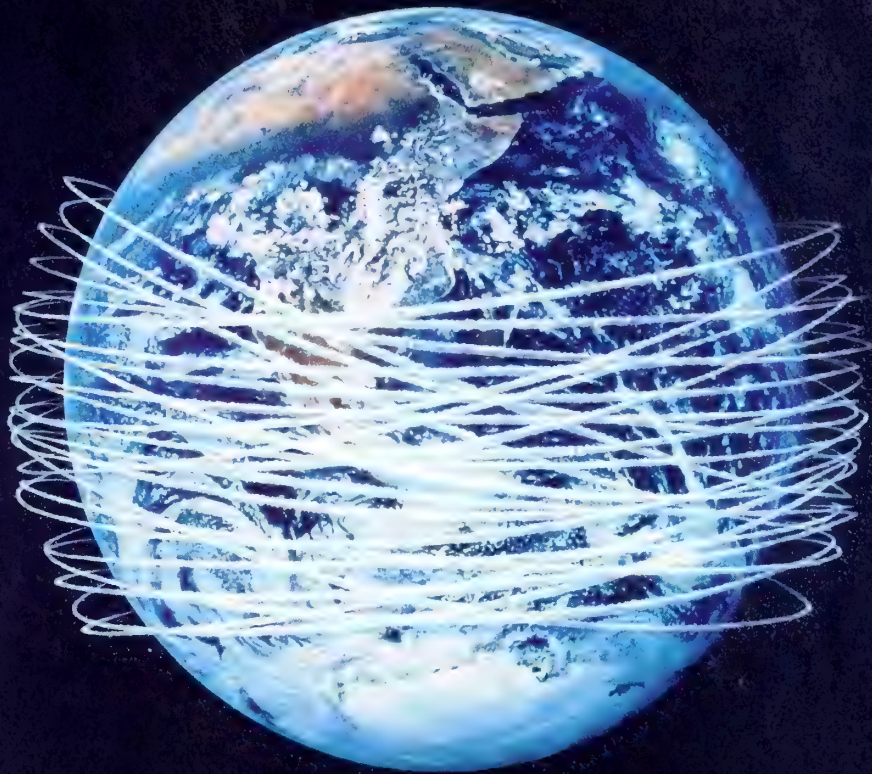
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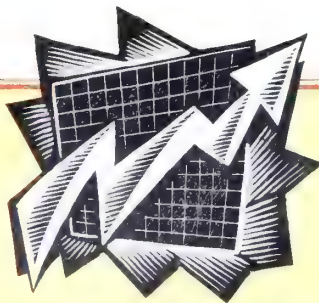
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**JUST DO IT: THE NIKE SPIRIT IN THE CORPORATE WORLD**

Donald Katz  
Random House • 336pp • \$23

## NIKE: CAN A COLOSSUS STILL BE COOL?

**B**y now, the story of how Nike Inc. grew out of the trunk of its founder's car is well known. In brief: A former journeyman middle-distance runner from the famed University of Oregon track team goes to Stanford Business School and writes a paper on how track shoes made in Asia could undersell the competition in the U.S. After B-school, he becomes an accountant but on the side starts hawking Japanese imports designed by his old coach. He hires a bunch of beer-swilling ex-jockers and would-be jocks to travel the track-meet circuit, selling shoes from their cars. In no time, the company is growing like wild-fire, they've created a marketing phenomenon called Air Jordan, and they're all rich.

That was the tale elaborated in *Swoosh*, published in 1992. Its authors—Laurie Becklund and J.B. Strasser, who was married to a onetime Nike executive—spent nearly 700 pages (at least 10 too many) chronicling Nike's swashbuckling early days. But for all its inside detail, the book suffered from the authors' lack of access to Nike Chairman Philip Knight.

Donald Katz faced no such handicap writing *Just Do It: The Nike Spirit in the Corporate World*. The famously enigmatic and insular Knight granted Katz more access to his company and his psyche than he has to any other journalist. While the result is hardly an in-depth analysis of the impenetrable Knight's personality, the book does plumb his thinking to an unprecedented degree as his company faces something of an identity crisis.

Katz picks up the story in 1993, when Nike's six-year runup to revenues of \$4 billion shows signs of slowing. Nike is a creative enterprise rich in entrepreneurial spirit that has discovered how—through remarkable image-making—to imbue its products with cool. Within its verdant Beaverton (Ore.) campus, an

elaborate culture has grown up, devoted to such irreverent Nike-sponsored sports heroes as tennis star John McEnroe and basketball bad boy Charles Barkley. And behind his ever-present Oakley shades, Knight himself has become a corporate icon, symbolizing the entrepreneur's brash nature.

But size and power have created their own problems. For one, Nike's image as an iconoclastic underdog is threatened. Writes Katz: "Knight realized that Nike was fast becoming a lightning rod for all of the popular ambivalence about the

the night Jordan retires. He shows us Knight's ambivalence about the might of Nike's marketing machine—a machine that, Knight admits, is "capable of blindsiding the company" by making it appear too powerful. A long, anecdotal passage describes how Nike wrestled with the controversy when several Nike-sponsored Dream Team members refused to wear sweatsuits made by Olympic sponsor Reebok International Ltd. during the medal ceremony at Barcelona. Katz breaks news by detailing Nike's hope to one day build shoes entirely through computer-aided design and automation. And he describes secret talks with International Marketing Group Chairman Mark McCormack, in which Knight offered to buy the huge sports agency.

But the best stuff here are the personal glimpses of Knight, who talks with relative openness about his motivation and style. He remains passionate about the company he built: "I worry over it like I worry about my kids. There's just too much emotion involved."

Here is Knight the business philosopher, moving in and out of day-to-day involvement with Nike as he deems necessary. Much of his time, Katz discovers, is spent in a small room adjacent to his outer office. Rarely does anyone else enter the room, where "dirty running clothes" are "piled on the floor near piles of articles and papers." Grumbles Knight: "Once you let people in your of-

fice, they'll come in and out all day long. I need to think."

Unfortunately, *Just Do It* lacks the narrative drive of *The Big Store*. Although Katz tries to shape his story by describing the events of 1993, he digresses annoyingly, as when he goes into great detail about the L.A. Gear Inc. booth at Atlanta's annual sports-equipment Supershow. Katz has also developed a tendency to overwrite—saying "ostentatiously remunerated" instead of "overpaid," for instance—which drags down his worthy reporting. That makes his book a slog in places. But for anyone who wants a glimpse inside one of America's most successfully entrepreneurial companies, *Just Do It* is worth the trouble.

BY MICHAEL ONEAL

Associate Editor Oneal wrote about Phil Knight in April.

**T**he book plumbs  
Phil Knight's thinking  
at a time when Nike  
faces something of an  
identity crisis



general convergence of American business and American sports." And Nike's push to go global has its price, too. "As you get bigger," Knight tells Katz, "you do have to tone down your entrepreneurial instincts. But you have to do it in a way that doesn't put out the fire." To make matters worse, Nike's booming basketball business is slowing down just as Michael Jordan, its most potent salesman, has quit the court.

Katz's strength as a business writer is his ability to bring a corporate culture to life. *The Big Store*, about the crisis at Sears, Roebuck & Co. during the early 1980s, was remarkable because of his ability to get a bunch of proud but embattled Midwestern executives to talk freely. *Just Do It* contains much the same depth of reporting.

Katz takes us inside the back room of Michael Jordan's Chicago restaurant



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EDITED BY STEPHEN H. WILDSTROM

## HERE COMES THE BICOASTAL DESKTOP

**J**udy works at headquarters in Minneapolis. Sam is in the Dallas regional office. Together, they're responsible for a presentation at the sales meeting in Pittsburgh next week. How do they jointly produce the visuals for the assembled masses?

Until very recently, the highest-tech answer available was a frustrating stream of E-mailed spreadsheets, faxed transparencies, and harried phone calls. But a better way is at hand. Various called "application sharing" or "desktop conferencing," it allows users at widely separated loca-

puters running under Microsoft Corp.'s Windows can be put in place for \$200 a station (assuming the users already have modems) and can be done over regular phone lines. Make that two phone lines—one for data, one to talk.

The most advanced product now available is Intel Corp.'s ProShare 1.6, which hit the market in June. AT&T Global Information Solutions plans to ship its new Vistium Share software later in the summer. Both are application-sharing programs unbundled from more complex and expensive video-conferencing

mode, one participant, the "host," fires up an application—word processor, graphics program, whatever. If the host allows, both participants can edit text, change graphics, or whatever the program allows. Each user needs a copy of the conferencing software, but the application being shared only has to be installed on the host computer. And changes to the files will also only be saved to the host's hard disk, but ProShare and Vistium provide an easy way to transfer files between computers.

The share software is not without its glitches. If the two computers sharing an application have different size monitors, the two users may not see exactly the same screen. The programs offer a way to compensate for this, but it can be disconcerting. If both users try to control the program at the same time, they end up just fighting over the cursor. The host can lock out the other user, but the problem is better resolved by simply agreeing over the phone to take turns.

Speed can also be an issue. When users are connected by a network or an ISDN phone line, screen updates are almost as fast as when not sharing. But using

14,400-bit-per-second modems over regular phone lines, it can take several seconds for shared screens to redraw.

Software-sharing technology is still in its infancy and could improve rapidly. Hewlett-Packard Co., which has not yet announced any products, is developing new communications protocols and technology that could allow high-speed sharing even between different types of computers, such as Macintoshes and IBM compatibles. That's in the future. But even today's desktop-conferencing software can make collaboration easier for folks who work in different locations. S.W.

## BULLETIN BOARD

### SOFTWARE

#### DOCUMENT DRAMA

The computer industry loves its buzzwords, and the latest is "document-centered software" or, if you must, "document-centricity." WordPerfect is using the term to promote its forthcoming PerfectOffice software suite



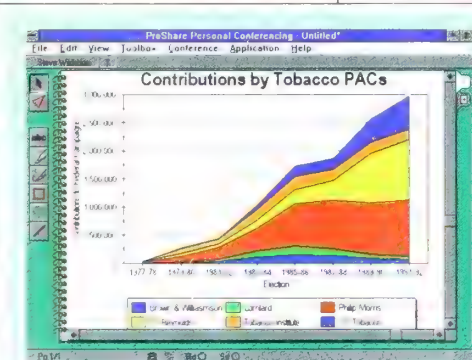
You'll hear a lot more about centrality when Microsoft launches its new version of Windows.

The theory is appealing. To write a report, you may need a spreadsheet for charts, a word processor for the text, and maybe a database manager to fetch corporate information. But your focus should be on the goal—the report—not on the tools used to build it. For example, you should be able to use your spreadsheet tools to change a chart without ever leaving your word-processing program. This requires much tighter integration than has been achieved so far. Let's hope users get a software breakthrough, not marketing hype.

### GETTING HELP

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tions to work together on computer files at the same time.

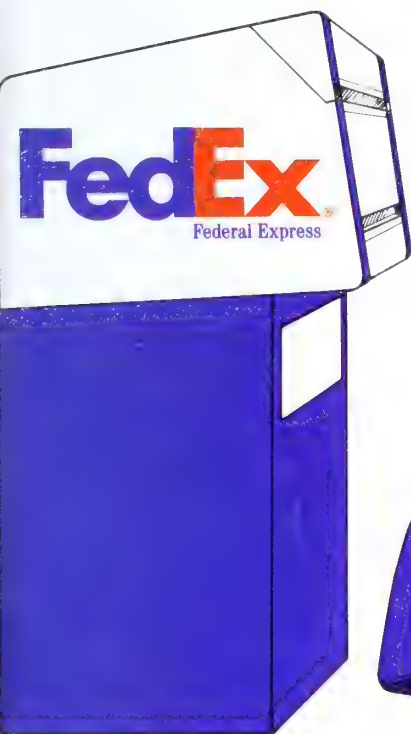
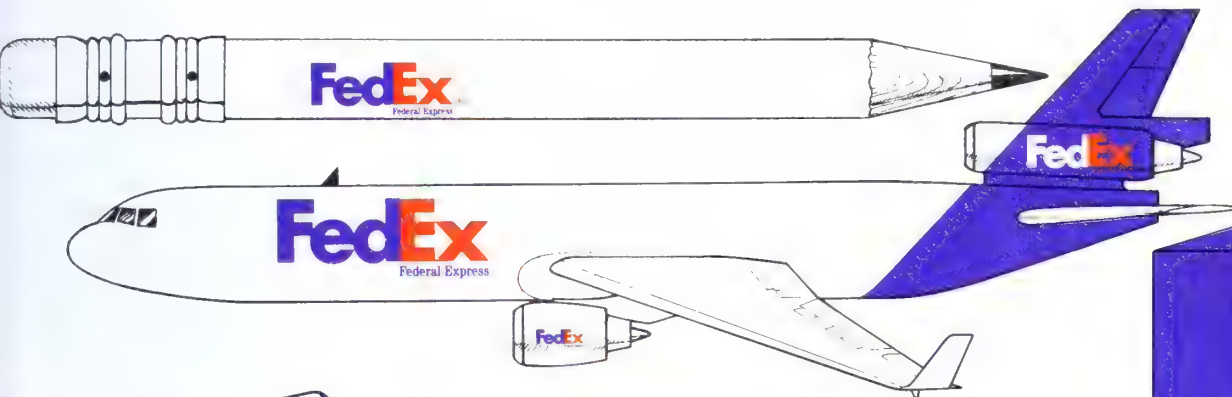
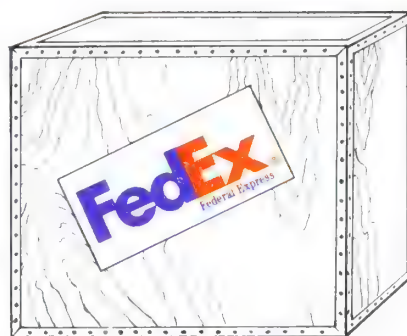
This collaborative software is an outgrowth of desktop video technology but aimed at a broader market. Although the cost of desktop video—which allows remote users to see each other as they work—has plunged, it remains pricey, with software and special hardware fetching about \$2,000 per station. In addition, special high-capacity Integrated Services Digital Network (ISDN) telephone lines are needed, further boosting the cost.

By contrast, software-only application sharing for com-

products. Fujitsu Ltd.'s Desk Top Conferencing is somewhat different. It allows sharing only over local- or wide-area network connections, not dial-up phone lines, but lets more than two users join a conference.

The Intel and AT&T programs (the latter was tested in a preliminary version) offer similar features. They both offer "whiteboard" screens that allow users to look at and mark up text and graphics. In ProShare, this takes the form of a multipage "notebook," which allows for a sort of remote-control slide show.

Application sharing offers greater possibilities. In this



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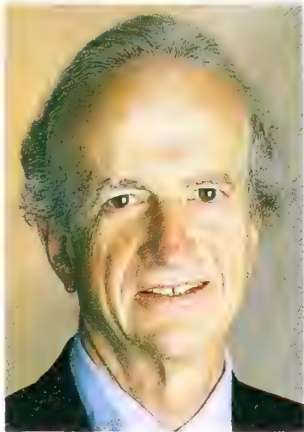
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## UNLEASH THE BILL COLLECTORS ON DEADBEAT DADS

BY GARY S. BECKER



Clinton's proposals for stiffer rules to enforce support payments are fine, as far as they go. But private collection outfits have a better track record than state agencies in getting money from recalcitrant fathers

**M**ore than one in five U.S. children live in poverty. This is mainly because of a spectacular growth in the number of families headed by unmarried mothers, compounded by low or nonexistent child-support payments by noncustodial fathers. Fortunately for the children, as well as the mothers, it is possible to greatly increase the number of fathers who meet their obligations.

It is far too easy for fathers to dump the financial as well as the emotional burdens of raising children on mothers. More men will hesitate to father children if they know they'll have a tougher time evading the duty to support them.

Children can benefit emotionally as well as materially when their fathers support them. And if more dads were forced to pay up, they might be more likely to spend time with their kids—since they would no longer be avoiding detection.

A 1993 Urban Institute study estimates that incomes of many one-parent families would rise above the poverty level if all child-support obligations were met. But the American Fathers Coalition—a group of child-support payers—claims the delinquency figures are inflated by mothers' failure to report the payments they receive. This coalition also believes fathers sometimes fall into arrears because child-support awards are excessive.

This group makes some valid points, but it is still important to improve compliance with child-support obligations. Congress passed legislation in 1984 and 1988 requiring states to make stronger collection efforts, with the Federal government footing most of the bill. It is now easier to garnishee wages, even when fathers have moved to other states, and to jail those who refuse to pay. Computer systems allow states to keep better track of where fathers live and how much they owe.

**PATERNITY WARDS.** As part of his welfare-reform package, President Clinton recently proposed stiffening these laws by establishing national clearinghouses to track interstate cases, by denying occupational permits and driver's licenses to fathers who don't pay up (some states already have such rules), and by requiring hospitals to establish and record who the father is for every baby born.

Although federal laws and state efforts have increased the numbers of fathers who pay up, statistics compiled by the Health & Human Services Dept.'s Office of Child Support Enforcement show that state agencies are collecting money in less than 19% of their child-support cases. Many fathers continue to successfully avoid detection by state gov-

ernments—in some cases by fleeing to another state.

One reason for the low figure is that state collection agencies concentrate on helping mothers on welfare, including efforts to establish the identity of the fathers. States emphasize welfare cases because public spending is reduced when families receive enough child support to go off welfare.

But many women not on welfare are also failing to get the support due them. Some women who were not being helped by state agencies have turned to private collectors to track down the fathers of their children. These collectors have often been quite successful. They may garnishee the wages of fathers or get local authorities to jail deadbeats until they pay up.

**BOUNTY HUNTERS?** Private collectors usually charge a small nonrefundable fee, but their main source of revenue is a contingency payment that usually ranges from one-quarter to one-third of what they collect. This may seem like a big cut, but these fractions are not out of line with fees charged by companies collecting other kinds of debt. Yet some children's advocacy groups oppose the involvement of for-profit collection companies because they hate to see large sums being siphoned off that should be going to the children. But mothers usually turn to private companies only after they fail to get what is due them through ordinary channels. And after all, 67% of what is collected privately is a lot better than 100% of nothing.

Private collectors often succeed where state agencies fail, because government officials lack financial incentives to track down fathers who are in arrears. Therefore, state agencies should take a cue from what some mothers are doing: Hire private companies to locate and collect from recalcitrant fathers.

Private collectors hunting down deadbeat fathers for state governments may evoke the notorious bounty-hunter system of the Old West, but it would be an effective response to the failure of state agencies. Privatization of state collection efforts has precedents in other kinds of debt: States have hired private companies to collect unpaid traffic fines, for example.

Congress should adopt most of the President's recommendations to strengthen the government's hand in collecting child support. But the laws already on the books would be much more effective in reducing the number of children raised in poverty if state governments and more mothers hired private collectors to track down deadbeat fathers.

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOPER INSTITUTION



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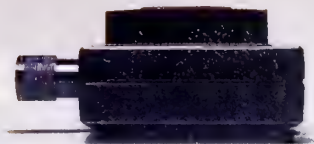
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BY GENE KORETZ

## U.S. HOUSING DEMAND: THE FOUNDATION SEEMS AS SOLID AS A BRICK

In the wake of rising mortgage rates this year, there's plenty of reason to think that the peak in the housing cycle is behind us. Indeed, mortgage applications have been slipping since the winter, and builders recently reported that buyer traffic has been slowing.

Nonetheless, the housing market is proving surprisingly resilient. And new demographic data suggest that underlying housing demand could stay robust through the decade and beyond.

Since September, for example, single-family starts have hit an average 1.22-million-unit annual clip—higher than such starts in any year since 1978. Multifamily starts have also accelerated recently and are running at more than double

Allen of Donaldson, Lufkin & Jenrette Securities Corp. points out that housing affordability is still at a 20-year high despite the uptick in mortgage rates, and consumers now have their pick of the greatest variety of mortgage arrangements in history. "Many buyers are now switching to different types of adjustable-rate mortgages," she notes.

Even if the housing market were to soften for a while, its impact on economic growth is likely to remain strong. On average it takes six months or more from the time a start is announced to the end of construction, and that's usually followed by heavy spending on furniture and other items.

## TO WALL STREET, THE GREENBACK'S FALL ISN'T ALL BAD

It's no secret that the weak dollar spells stronger profits for some U.S. companies. What may be unappreciated, however, is its positive effect on the overall corporate earnings outlook.

On average since World War II, notes Jeffrey M. Applegate of CS First Boston, foreign profits of U.S. corporations have grown about 9% a year, compared with a 6% rate for domestic-only U.S. profits. In the 1990s, though, the foreign profits growth rate has slipped to 2%, mainly as a result of the European recession.

That should change this year and next, as the weak dollar reinforces the impact of recovery overseas on demand for U.S. exports and on the performance of foreign subsidiaries of U.S. multinationals. The foreign share of profits earned by U.S. corporations, says Applegate, should rise from 25% at the end of 1993 to 30% by the end of 1995. Although U.S. growth will slow, he thinks rising foreign and export profits will be enough to keep S&P 500 operating earnings rising by at least 15% this year and 8% in 1995.

## FEARS OF A GLOBAL CAPITAL SHORTAGE MAY BE INFLATED

Is a looming global capital shortage responsible for the upswing in global bond yields this year? Some experts see a clash unfolding between the capital requirements of recovering industrial nations and the rising needs of developing economies, which attracted a huge \$140 billion in long-term capital last year.

Economists at Merrill Lynch & Co.

argue that fears of a global capital shortage are overblown, however. They note that part of the long-term flows to developing nations last year were recycled back to the industrialized nations via central bank purchases of foreign currency reserves. In fact, the total current account deficits of developing nations came to only \$95 billion, \$45 billion less than their capital inflows.

East Asia's need for foreign capital is tempered by very high domestic savings rates—as high as 30% to 40% of gross domestic product, notes Merrill Lynch. And Latin America's need for capital may be peaking.

In any case, the increase in capital flows to developing nations over the last four years was equivalent to only one-third of 1% of the industrial world's GDP. And the structural government budget deficits of the industrial nations are expected to shrink by a cumulative 1% of GDP this year and next—a decline in domestic capital needs that will dwarf any likely increase in capital demands from developing economies.

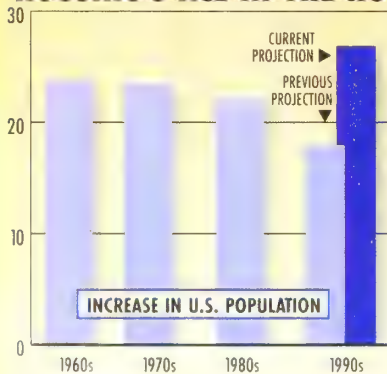
## THIRSTY MINIVANS HELP KEEP OPEC IN THE DRIVER'S SEAT

Oil prices are up 40% since February, and American energy demand is rising. U.S. crude production seems headed for a 35-year low—not enough to satisfy even 40% of domestic consumption. To these worrisome trends, add one other: Economist Irwin L. Kellner of Chemical Banking Corp. reports that U.S. fuel efficiency is declining.

Since OPEC first flexed its muscles in the early 1970s, notes Kellner, America's automotive fleet has consistently boosted the average miles it could squeeze out of a gallon of gasoline. In the past two years, however, average vehicle miles traveled per gallon have fallen from 21.4 in 1991 to an estimated 21.4 in 1993, a decline of 1.4% in efficiency. At the same time, the average miles traveled per auto rose by 4.2%.

Kellner attributes the reversal to the booming sales of light trucks in recent years. Minivans and sport-utility vehicles not only tend to burn more fuel than conventional cars, he says, but are governed by lower federally mandated fuel efficiency standards. Since motor gasoline accounts for nearly 45% of U.S. consumption, the American driver's current infatuation with gas-thirsty light trucks is having the perverse effect of increasing both the trade deficit and U.S. oil dependence.

## A BOOMING POPULATION: HOUSING'S ACE IN THE HOLE



▲ MILLIONS OF PEOPLE  
DATA: CENSUS BUREAU, HARVARD UNIVERSITY JOINT CENTER FOR HOUSING STUDIES

their year-ago pace. And new- and existing-home sales in May posted double-digit increases over May, 1993.

"Although some consumers have chosen to delay purchases due to higher rates," says Robert H. Elrod, president of the National Association of Realtors, "many others have brushed off rates because they are intent on buying a home."

The industry has also been heartened by unexpectedly high immigration. According to the Census Bureau, the U.S. population in the 1990s will grow by some 27 million, rather than the 17 million previously projected (and over the next two decades by an additional 25 million above earlier projections). That's the highest population growth in four decades (chart).

Meanwhile, housing analyst Barbara

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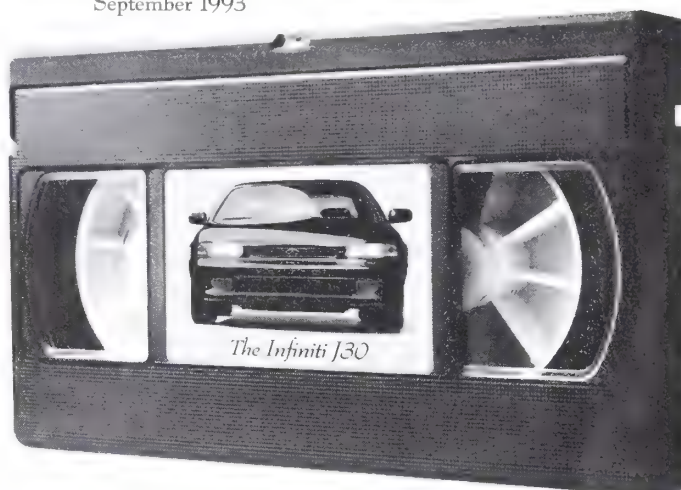
Car and Driver  
September 1993

*"...an excellent performer in all situations, from high-speed merges to passing."*

New York Post Auto Saturday  
April 24, 1993

*"A highly refined rear-drive sedan, absolutely dripping with luxury."*

Road & Track, 1993  
Complete Car Buyer's Guide



*"A jewel of a sedan: beautifully cut and nearly flawless."*

Car and Driver  
September 1993

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investment plans do not guarantee a profit nor protect against loss in declining markets.)

To understand the impact of a regular savings plan in action, see the table below left. It shows how easily a \$1,000 initial investment—with an additional \$50 invested each month—would have grown to \$88,636 over the past 19 years with the Berger 100 Fund. (Naturally, as with any mutual fund, past performance shows the fund's history and does not guarantee future results.)

## A philosophy that resulted in significant success.

This kind of performance has grown out of a very practical philosophy that's guided us through nearly two decades of market fluctuations. That philosophy is simply to invest in profitable, successful companies because they are more apt to become profitable, successful investments. You can see from the chart below how well this philosophy has performed for us in the past.

### "PUTTING IT IN" STEADILY IN THE BERGER 100 FUND

\$1,000 initial investment on 9/30/74. \$50 invested at the end of each month. Note the market declines indicated in grey. To manage this kind of volatility in the market, we advise investing long term.

| Date of investment       | Annual investment (\$50 per month) | Value at end of year |
|--------------------------|------------------------------------|----------------------|
| 9/30-12/31/74            | \$1,150                            | \$1,285              |
| 12/31/75                 | \$600                              | \$1,863              |
| 12/31/76                 | \$600                              | \$2,892              |
| 12/31/77                 | \$600                              | \$3,571              |
| 12/31/78                 | \$600                              | \$4,611              |
| 12/31/79                 | \$600                              | \$6,693              |
| 12/31/80                 | \$600                              | \$9,779              |
| 12/31/81                 | \$600                              | \$10,212             |
| 12/31/82                 | \$600                              | \$12,256             |
| 12/31/83                 | \$600                              | \$14,897             |
| 12/31/84                 | \$600                              | \$12,479             |
| 12/31/85                 | \$600                              | \$16,341             |
| 12/31/86                 | \$600                              | \$20,225             |
| 12/31/87                 | \$600                              | \$23,969             |
| 12/31/88                 | \$600                              | \$24,986             |
| 12/31/89                 | \$600                              | \$37,750             |
| 12/31/90                 | \$600                              | \$36,249             |
| 12/31/91                 | \$600                              | \$69,238             |
| 12/31/92                 | \$600                              | \$75,823             |
| 12/31/93                 | \$600                              | \$92,567             |
| 3/31/94                  | \$150 YTD                          | \$88,636 YTD         |
| <b>Total Investments</b> |                                    | <b>\$12,700</b>      |
| <b>Total Account</b>     |                                    | <b>\$88,636</b>      |

### THE BERGER 100 FUND TOTAL ANNUAL RETURN FOR THE PERIOD ENDING 3/31/94

| 1 Year             | 3 Years | 5 Years | 10 Years | 15 Years | 19.5 Years <sup>††</sup> |
|--------------------|---------|---------|----------|----------|--------------------------|
| 15.6% <sup>†</sup> | 21.9%   | 24.6%   | 18.8%    | 16.7%    | 15.6%                    |

<sup>†</sup>Source: Lipper Analytical Services, Inc.

<sup>††</sup>Berger Associates assumed management of the Fund 9/30/74

To learn more about the Berger Funds,  
**Please call (800) 333-1001**

for a prospectus containing more complete information including management fees, charges and expenses.

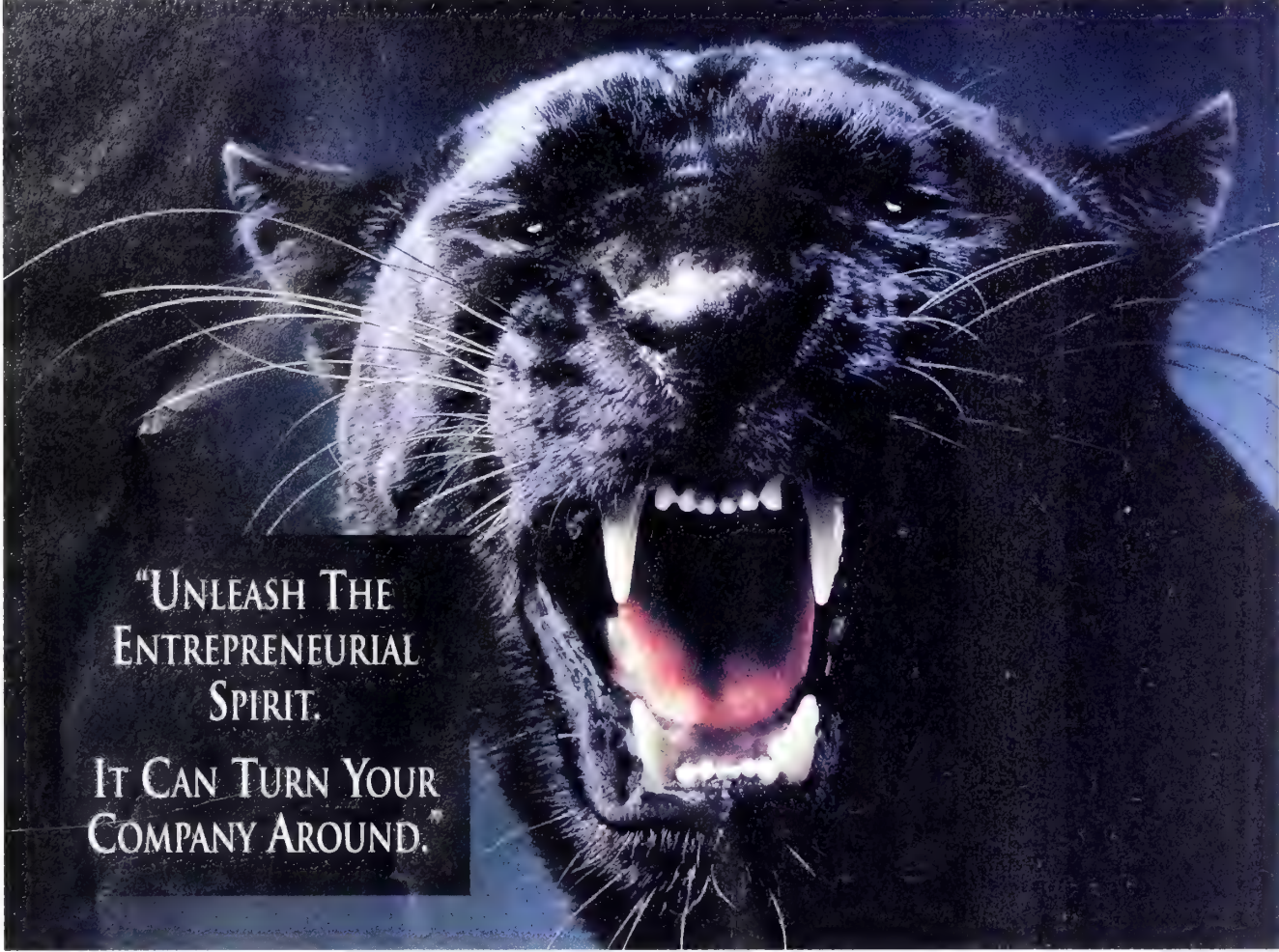
Read it carefully before investing.



**Together we can move mountains.<sup>SM</sup>**

Figures in the charts represent past performance and do not guarantee future results. These performance figures include changes in share price and reinvestment of dividends and capital gains, which will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. The figures include the deduction of 12b-1 fees beginning in June 1990. \*Dollar-cost averaging does not assure a profit and does not protect against loss in declining markets. Since the plan involves continuous investments in securities regardless of fluctuating price levels of securities, you should consider your ability to continue your purchases through periods of low price levels before investing.





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**EXPECT MORE FROM US.<sup>SM</sup>**



## THIS SUMMER'S GROWTH WILL HARDLY BE OVERHEATED

If you're looking for a way to beat the summer heat, take a cue from the U.S. economy: Just slow down and take it nice and easy.

Much of the data show that growth is cooling off. The leading indicators have gone nowhere for the second month in a row (chart). The second-quarter pace of consumer spending fell sharply. Construction did rebound from weather-depressed performance in the first quarter, but higher interest rates will put a chill on some new projects in the second half. And with domestic demand a bit more tepid, factories are gearing down a notch, as well.

It's not that the economy is wasting away in Margaritaville. On the contrary. During the past year, growth has averaged about 4%, pumped up by the 7% surge at the end of 1993. In the first quarter of 1994, growth moderated to 3.4%, says the Commerce Dept.'s final reading of real gross domestic product, which was revised up from 3%. Second-quarter GDP looks to be about 3%,

and that moderate pace, or a bit less, should prevail in the second half.

If that scenario plays out, the economy's headway will be sufficient to generate about 2 million jobs this year, enough to keep consumers spending and factories humming. But growth will not be so hot as to fire up inflation, and that will please the Federal Reserve and hearten the financial markets.

**AUTOS HOLD BACK FACTORY OUTPUT** Right now, though, manufacturing is not bustling the way it was a few months ago. Order books are not filling up as fast, production lines are running more slowly, and factories are still keeping inventories and payrolls on a short leash, as consumer demand for cars, trucks, and other durable goods has eased back a notch. Factory orders for both durable and nondurable goods rose 0.6% in May, after a 0.2% increase in April. But so far in the second quarter, order growth has fallen well below the pace in each of the two previous quarters.

Some of the slippage in manufacturing reflects a seasonal slowdown in autos, as carmakers shut down production lines to retool for the new model year. Vehicle output could pick up in the third quarter, as the changeovers are made, especially since spot shortages of some popular

models have trimmed Detroit's inventories to very low levels.

In fact, overall factory inventories are extremely tight in relation to demand. Stock levels rose 0.5% in May, the fourth increase in the past five months, but shipments also rose 0.5%, leaving the ratio of inventories to shipments at a historically skimpy 1.39. However, that low reading says more about manufacturers' improved inventory control than it does about the inadequacy of current stock levels to meet demand.

Activity in the factory sector remained solid in June, says the National Association of Purchasing Management, but its growth rate did ease a bit. The NAPM's composite index edged down to 57.5% from 57.7% in May. The index has been about flat since January, suggesting that growth is no longer picking up the way it was in the second half of last year.

### COMPANIES FLASH AN INFLATION WARNING

The NAPM's report did contain an inflation warning, however. Its index of prices paid rose to 73.5%, the highest percentage of companies reporting price increases in about six years (chart).

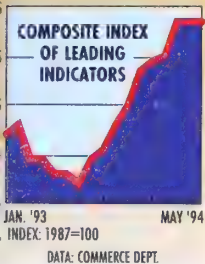
At the same time, the percentage of companies reporting a slowdown in delivery times remained near a six-year high, a sign that several industries may be close to their capacity limits. By and large, the same industries that showed slower deliveries also reported higher prices.

But it's not as worrisome as it sounds. The NAPM's price measure is a diffusion index, meaning that it measures the breadth of price increases among industries, not their magnitude. Also, the hikes are concentrated in raw materials, mainly reflecting the recent runup in commodity prices.

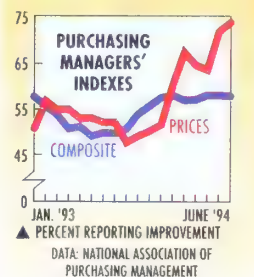
Whether these hikes ever reach consumer inflation is still an open question that will not be answered until 1995. But even this summer, the consumer price index bears watching because of the government's new seasonal adjustment process. Compared with past patterns, the readjustment tends to moderate CPI increases in the winter, but it may well amplify them this summer. June data are due on July 13.

Of course, one sector of the economy is enjoying the

### ANOTHER SIGN OF SLOWER GROWTH



### PRICES RISE, BUT ACTIVITY MODERATES





# Business Outlook

summer heat: construction. Builders suffered this winter, especially in the East. But even with interest rates rising, building bounced back in the second quarter, and it should add a kick to the quarter's real GDP growth. Real construction spending rose 0.9% in May, and so far in the quarter, outlays are rising at a 8.7% annual rate, following a 2.9% drop in the first quarter (chart).

However, don't expect construction to be a big lift to growth in the second half. New building contracts, a leading indicator of building outlays, are down nearly 14% so far in the second quarter, compared with the first-quarter level. New contracts rose 4% in May, although residential deals fell 2%, according to the F.W. Dodge Div./McGraw-Hill Inc.

## CONSUMERS FEATHER THEIR NEST EGGS

Consumers may also be less of a contributor to growth in the second half. After three quarters of 4%-plus spending growth, consumers may have deserted the shopping malls in favor of the beach.

In fact, shoppers started to rein in their spending in the spring, despite solid income growth. Personal income rose 0.6% in April and in May. And after a bigger-than-usual tax bill cut into disposable income in April, real aftertax earnings jumped 1% in May. That means real income grew at a healthy 3.9% rate in the first two months of the second quarter.

Despite this extra money, consumer spending fell 0.6% in April and rose just 0.2% in May. As a result, real outlays are nearly flat so far in the second quarter. June spending will have to rebound by a huge 1.1% to push outlays up by a modest 2% rate for the quarter. And even that pace would be one of the slowest in this expansion.

A strong June push isn't out of the question. Some Eastern states experienced one of the hottest Junes on record, which probably increased spending on summer clothing and other hot-weather items, such as air conditioners. The *Johnson Redbook Report* noted that sales at department stores and chain stores increased 3.5% in June from May.

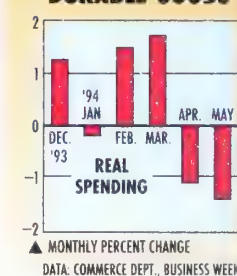
Car dealerships didn't do as well, however. Sales of U.S.-made cars and light trucks stood at an annual rate of 12.3 million in June, from 12.6 million in May. Softer vehicle demand reflects some spot shortages of models and the overall slowdown in durable-goods spending, which fell 1.4% in May, the second decline in a row (chart).

Besides vehicles, demand for appliances and furniture is also tapering off. The higher cost of credit, the slowdown in housing, and the absence of mortgage refinancings are all cutting into spending. So, too, after two years of double-digit growth in durable-goods purchases, households have satisfied most of the pent-up demand from the 1990-91 recession.

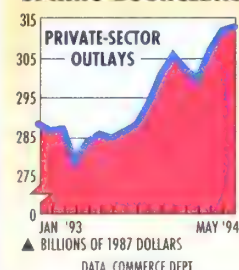
Instead of buying cars and carpeting, consumers are adding to their nest eggs. Personal savings as a percent of disposable income rose to 4.7% in May, from 3.9% in April. The savings rate is now at its highest in more than a year. And with job and income growth healthy, consumers can save more while still keeping their spending on the rise.

A steady but slower uptrend in consumer spending ensures the economy is cooling off. For those worried about simmering inflation, slower growth will take some of the sting out of the dog days of summer that lie ahead. For the rest of us, a pitcher of margaritas should do the trick.

## SHOPPERS BUY FEWER DURABLE GOODS



## CONSTRUCTION'S SPRING BOUNCEBACK



## THE WEEK AHEAD

### PRODUCER PRICE INDEX

Tuesday, July 12, 8:30 a.m.

Producer prices for finished goods probably increased by 0.3% in June after falling 0.1% in April and May, forecast economists surveyed by MMS International, a division of McGraw-Hill Inc. Prices may have risen a bit faster, though, led by higher gasoline prices. Excluding the food and energy sectors, producer prices likely edged up 0.1% last month, after a 0.4% jump in May.

### CONSUMER PRICE INDEX

Wednesday, July 13, 8:30 a.m.

Consumer prices probably advanced 0.3% in June, a bit faster than the 0.2% gain

in May. Even so, the yearly inflation rate would still be a modest 2.6% in June, from 2.4% in May. Excluding food and energy prices, the MMS survey projects that core inflation also rose by 0.3% in June, the same mild increase as the month before.

### RETAIL SALES

Thursday, July 14, 8:30 a.m.

The MMS median forecast calls for a 0.5% increase in retail sales in June. That would partially reverse the two consecutive declines in store receipts so far in the second quarter. Car and truck sales were little changed last month, and excluding motor vehicles, retail sales probably rose 0.6%, twice as fast as the 0.3%

gain in May. Consumers are starting to tire after a nearly yearlong shopping spree.

### INDUSTRIAL PRODUCTION

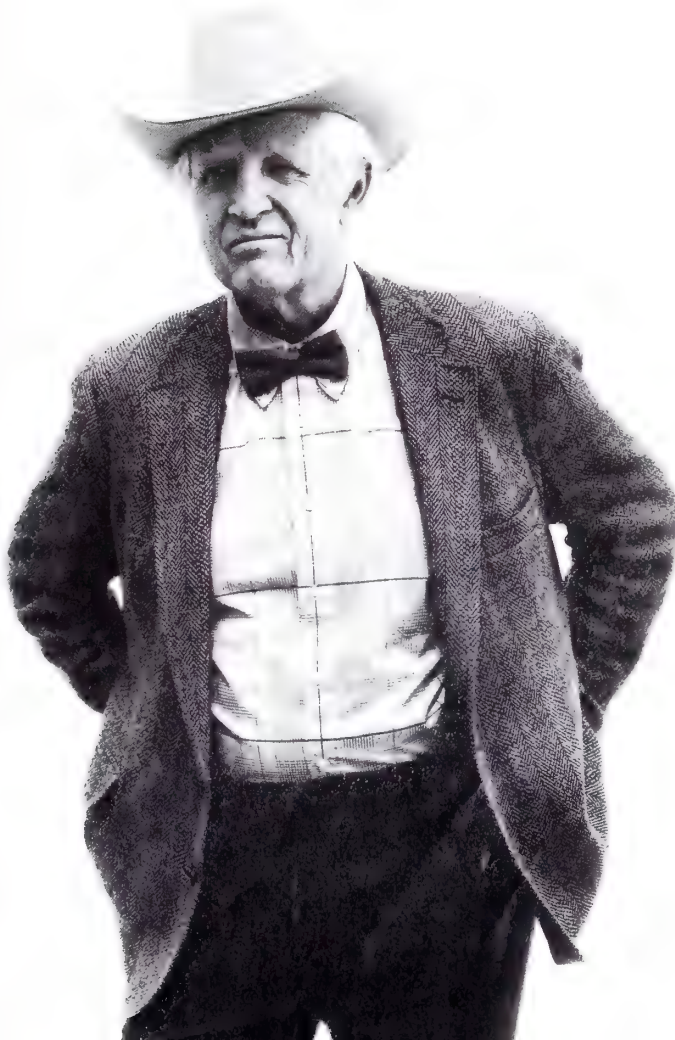
Friday, July 15, 9:15 a.m.

Output at the nation's factories, mines and utilities probably grew by 0.3% in June, according to the MMS economists. Warm weather likely lifted energy use while slower auto production held back gains in factory output. Total output increased by 0.2% in both April and May. The expected gain in industrial production suggests that operating rates for all industries edged back up to 83.6% last month, after slipping to 83.5% in May.

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# WHY BARRY NEEDS LARRY

**CBS IS THE POWER PARTNER SLUGGISH QVC CRAVES**

**D**an Rather, who was busy hosting CBS's live coverage of the O.J. Simpson murder hearings, couldn't chat. But Barry Diller got a friendly wave from the anchorman as he made a late-afternoon pilgrimage to CBS News on June 30. The chairman of QVC Inc. also made it his business to shake hands with several of Rather's off-camera colleagues. Such gestures mean a lot, especially if—like Diller—you have just announced plans to merge your home-shopping service with the Tiffany Network.

It's easy to make light of the \$7.1 billion merger of CBS Inc. and QVC: Lofty meets cheesy; Black Rock meets cubic zirconia; *60 Minutes* meets *Can We*

3%-owner of CBS. Plus, the 51-year-old programming wizard might finally satisfy his own ambitions—and the expectations of colleagues and rivals who have eagerly charted his progress from Fox Broadcasting to QVC to an unsuccessful bid for Paramount Communications. "It's a deal that satisfies Diller's need to do something," sums up Porter Bibb, a media investment banker at Ladenburg, Thalmann & Co.

True, the merger may still come unglued. Some media executives say CBS could command a price of \$400 per share—far higher than the \$336 per share value of the QVC deal. As a result, many expect a competing offer for the network. But Diller points out that gov-

## BARRY DILLER'S LONG MARCH

**1967** A college dropout and one-time mailroom clerk, Diller joins ABC-TV as programming executive. Credited with inventing the miniseries and TV movie, he rises to head programming within two years.

**1974** Diller moves to Paramount Pictures as chairman, taking along assistant Michael Eisner. Revives languishing studio with such movies as *Raiders of the Lost Ark* and *Star Trek* and hit TV shows *Happy Days* and *Laverne and Shirley*.



**BIG SPENDER MURDOCH**

**1984** Diller leaves Paramount to run Twentieth Century-Fox for Marvin Davis and, subsequently, for media mogul Rupert Murdoch.

*Shop*? But for Diller, there is nothing remotely lighthearted about the proposed deal, which was crafted in several weeks of supersecret talks between him and CBS Chairman Laurence A. Tisch. With home shopping in a rut and QVC's stock stalled, Diller needs this merger even more than CBS does.

**COMPETING BIDS.** If the deal goes through, Diller would jump from running an electronic bazaar to the helm of America's top-rated broadcast network. He would become the CEO and

ernment regulations would make such a move difficult for rumored buyers such as telephone companies or Walt Disney Co. And Tisch says he fully expects the deal to be ratified at July 13 board meetings of CBS and QVC.

Both men have a lot at stake. CBS has suffered several setbacks at the hands of Rupert Murdoch's Fox Broadcasting Co., including the loss of pro football and eight affiliates. Although Tisch denies it, CBS insiders say he felt impelled to sell now for fear that Fox's





kamikaze tactics were becoming common practice in broadcasting. "When Murdoch pays \$1.5 billion for football and \$8 million for John Madden," says one executive, "you're sending a message that economic stewardship has gone out the window."

Still, investment bankers and media executives agree that Tisch could probably have held out longer and still fetched a good price for CBS. Diller, by contrast, faces pressure on several fronts: QVC's stock, which zoomed up to 72 last August on the expectation that Diller would transform home shopping, has settled in the mid-30s. That's not much higher than when he bought 3% of QVC in December, 1992.

**JEWELRY SLUMP.** What's more, QVC's growth—which had galloped at a breakneck pace through the late 1980s—has begun to tail off. The company's net income dropped to \$12.1 million in the first quarter of 1994 from \$21.6 million in the previous year's first quarter. Much of that decline was a function of startup costs for new ventures, such as shopping services in Britain and Mexico. QVC also lost \$831,000 on *Can We Shop?*, an ill-fated show with Joan Rivers.

But even discounting those losses, QVC's business looks sclerotic. In the first quarter, for example, the company's net revenues were up only 8.4%—far

Diller insists QVC has returned to double-digit revenue growth since the first quarter. "This is a solid, vibrant company," he says. Indeed, with only \$6.9 million in debt, prodigious cash flow, and powerful cable backers such as Telecommunications Inc. and Comcast Corp., QVC remains a potent acquisition vehicle. While critics question the synergy between CBS and QVC, nobody doubts Diller's ability to finance the deal. CBS shareholders would receive \$175 in cash for each share, or a total of \$2.9 billion.

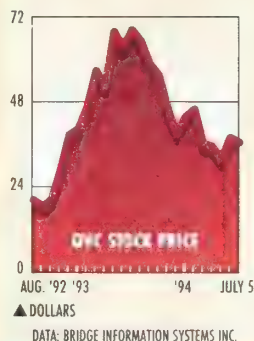
What Diller has not done—not yet anyway—is deliver on the promise of electronic retailing. His major programming innovation, a more upscale shopping service called Q2, has been hampered by weak distribution. Q2 is available in just 9 million homes. And retailers who have seen tapes of Q2's early programs say their mixture of lifestyle features and upscale products doesn't work. Q2 says it has commitments from cable operators for 32 million homes. And Q2 President Candice Carpenter says the programming will be refined: "It's a hard thing to come out of the gate looking great."

Even if QVC succeeds in breaking out of its niche, rivals are nipping at Diller's heels. Time Warner Inc. and Spiegel Inc. are developing an upscale shopping service called Catalog One. R. H. Macy

**1986** Launches Fox network with *The Late Show Starring Joan Rivers*. After three years of lackluster ratings, Fox becomes financial success.

**1992** Still frustrated by lack of control, Diller quits Fox. Rumors have him buying NBC. Instead, he signs a deal to gain control of home-shopping giant QVC Network Inc. Stock jumps 23%.

#### DRASTIC REDUCTION!



**1993** Diller is named QVC chairman and chief executive. QVC launches a hostile bid for Paramount, a week after Viacom announces its own merger agreement with the entertainment company.

**1994** QVC loses Paramount to Viacom, which offers \$10 billion. On June 29, QVC and CBS announce tentative plans to merge.



**DILLER AND TISCH: DID MURDOCH STAMPEDE CBS?**

short of its 19% average growth rate in previous years. Diller also added just 1.1 million new subscribers in the quarter. That gives him 50.4 million cable households—4.3% more than a year ago, but again, a slower growth rate than in 1993 or 1992. One reason for that is the lack of channel capacity on cable systems. Even more worrisome, QVC's subscribers are spending less on its discount jewelry. Partly as a result, the company's first-quarter gross profit margin fell from 41.6% to 39%.

& Co. still hopes to start a channel called TV Macy's. Meanwhile, QVC's archival, Home Shopping Network Inc., has boosted its cable subscribers from 28 million to 35 million, according to Chief Executive Gerald Hogan.

**"CONCEPT BUY."** The heightened competition hasn't checked Diller's ambitions. He still believes that he can harness digital technology to transform electronic retailing. It's just that QVC will have to wait until channel capacity expands—probably another three years. "We'll



be there when it does," says Diller. The question is: Will shareholders still be there, especially without the added attraction of a CBS deal? John Tinker, a media analyst at Furman Selz Inc. who is recommending QVC, acknowledges that the company isn't going to generate much earnings momentum in the next couple of quarters. Says Tinker: "This is still a concept buy."

With the proposed CBS deal, such issues may now be moot. Diller's losses overseas would be mere blips on CBS's income statement. And another good advertising sales season—such as the one CBS is now enjoying—would overshadow QVC's slow growth. That may help explain why Diller labored so hard to construct an airtight deal.

As a veteran of the Paramount battle,

Diller knows that even good deals can be scuttled. But this time the stakes are higher. When Diller lost his Paramount foray, his colleagues loved to self-confidence of his concession statement: "They won. We lost. Next." Diller doesn't pull it off this time, those words may ring hollow.

By Mark Landler in New York and Ronald Grover in Los Angeles

## EXECUTIVE SUITE

### UNEMPLOYED —AND LOVING IT

Michael Miles, late of Philip Morris, is America's most eligible executive

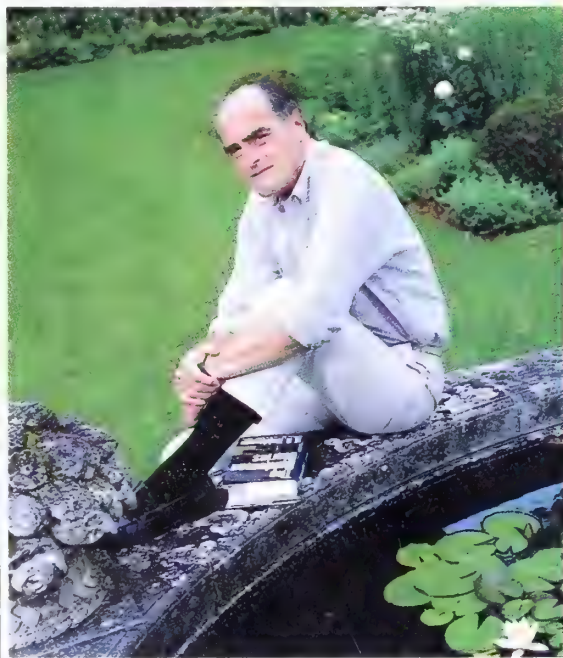
**Y**ou're 54 years old, heading a \$61 billion food and tobacco conglomerate, and it's been a dog of a year. Profits are wobbly, the stock is in the tank, and restive shareholders are urging you to break up the company. You'd like to oblige, but your predecessor, who still wields clout, fights the plan. The board sides with him. What do you do now?

Michael A. Miles, CEO of Philip Morris Cos., called it quits. On June 17, facing near-unanimous antagonism from his directors and from former Chairman Hamish Maxwell—who had voted against splitting Philip Morris into food and tobacco units three weeks before—Miles delivered his resignation. He ditched New York, and has spent the days since immersed in David McCullough's *Truman* and H. R. Haldeman's diaries. **NO REHASH.** It wasn't the most graceful of exits. But the day before Miles left the company, "he was walking around whistling," says one person who knows him well.

And when *BUSINESS WEEK* caught up with Miles 10 days into his "vacation" at his home in Lake Forest, Ill., he sounded nothing if not cheerful. "I'd be happy to talk if you can put up with my noncommunicativeness," laughed Miles, who in five years at Philip Morris had earned a reputation as a dour, reticent workaholic.

Miles won't talk much about Philip Morris or his departure, except to say

that "the way it's been played in the press has been pretty accurate. I don't think anything is served by rehashing it at this stage of the game." He has no regrets about pushing to split the company: "I did the best I could. I don't have any second thoughts about the decisions I made." And he denies the rumors that his resignation was forced: "It was



**"THE WAY IT'S BEEN PLAYED IN THE PRESS HAS BEEN PRETTY ACCURATE. I DID THE BEST I COULD. I DON'T HAVE ANY SECOND THOUGHTS ABOUT THE DECISIONS I MADE. IT WAS MY DECISION [TO LEAVE] AND THE TIMING WAS MINE."**

my decision, and the timing was mine."

Forced or not, Miles now reigns as America's most eligible executive. "When a talent like [Miles] is available, boards will find a way to attract him," says Thomas J. Neff, CEO of headhunter Spencer Stuart, who recently called Miles. Headhunters and food and tobacco industry insiders say Miles could be a candidate for a top position at H.J. Heinz, PepsiCo (where his oldest son

works), Procter & Gamble, and Pet In

Miles himself says such talk falls "under the heading of wild rumors." He won't start pursuing employment until Sept. 1, after taking the summer off "for the first time since I was a freshman in high school" to read, baby-sit his two grandchildren, and travel with his wife Pam. As for what he'll look at then, Miles says, "without wanting to be coy... I really haven't thought much about it."

He concedes that he probably would end up in an industry that is totally foreign to him: "I think I ought to stick to something I know something about, which is consumer packaged goods and restaurants." Friends have suggested he pick up some of his own capital—he owns among other assets, 86,267 shares of Philip Morris stock, worth

roughly \$4.5 million—to join an investment firm such as Clayton, Dubilier & Rice Inc., which has a history of attracting recently departed CEOs. Miles hasn't entirely ruled that out. What about General Motors Corp., which recently announced it is looking for a new marketing chief? "I don't want to talk about that," says Miles. "That is strictly a rumor, and it's very unlikely."

Whatever happens, Miles won't sit still. "Mike is too active a person, too inquisitive, to retire," says Arthur C. Martinez, CEO of Sears Merchandise Group, where Miles has been a director since

1992. For now, though, Miles insists he's happy just hanging out. "My wife thinks I'll be jumping out of my skin six weeks from now," he says. "In the news coverage of my departure, someone said I was going to play golf and go to Italy. I never occurred to me to go to Italy. And he doesn't know how to play golf. But this summer, with time on my hands, he says he'll learn."

By Laura Zinn in New York



# THE NERVOUS FACES AROUND KELLOGG'S BREAKFAST TABLE

Behind a management shakeup lies a slide in its core U.S. cereals business

For the usually staid Kellogg Co., the management shuffle announced on July 1 amounted to pre-Fourth of July fireworks. Yet the cereal powerhouse seemed to hope that the news would draw less notice than the snap, crackle, and pop from a bowl of its Rice Krispies. Why? Perhaps Kellogg did not want to draw attention to the reason for the shakeup: All is not well in the land of the Tiger.

As announced at 4 p.m. on the Friday before a four-day company holiday, Kellogg Chief Executive Arnold G. Langbo brought Thomas Knowlton back from his position as head of Kellogg's European operations to become president of Kellogg North America. The man he replaced, Gary E. Costley, left Kellogg. Costley declined comment, but a Kellogg spokesman said he had resigned after being offered another assignment. Kellogg did not make any executives available for interviews.

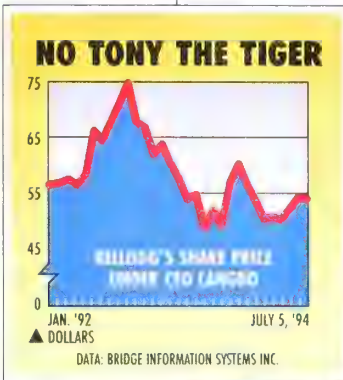
Knowlton, like Langbo, is a Canadian who came up through Kellogg's foreign operations. He did well in Europe. John J. McMillin, food analyst for Prudential Securities Inc., says Knowlton helped Kellogg keep both its prices and market share in Britain, where private-label cereals claim 20% of the market—far more than the single-digit levels they hold in the U.S.

**ISSUED FAD.** Kellogg remains formidable. It still leads the U.S. cold-cereal market and controls half of the foreign market. In the first quarter of 1994, net earnings rose 6%, to \$183.7 million, before such one-time events as the sale of the Mrs. Smith's frozen-pie business and the funding of a charitable trust. Sales rose 6%, to \$1.6 billion. And the sales gain came while volumes rose only 2%.

But the results mask a worrisome slide in the U.S. While virtually every other division reported better first-quarter results, U.S. cereal sales fell. And Kellogg's dimming fortunes started showing up in its stock price. On the strength of the company's overseas prospects, the stock rose briefly to 75 in October, 1992. Last year, it fell more than

\$5, even though Kellogg repurchased \$547 million of stock during the year. So far this year, the stock has dropped another \$2.50 or so, to around \$54, leaving it below the level when Langbo became chairman in January, 1992 (chart).

Why the falloff? Kellogg's rivals have been more innovative, for one thing. When its cereals claimed 42% of the market in 1986, the company started talking openly about scarfing up 50% of the U.S. cereal market by the early '90s. Instead, competitors ate Kellogg's breakfast. Ralston-Puri-



**NOT SO SPECIAL? MORE INNOVATIVE RIVALS HAVE STOLEN MARKET SHARE FROM KELLOGG**

na Co., for instance, quickly cashed in on the Batman and Ninja turtles crazes with fad cereals. Kellogg's share, meanwhile, slipped to 35.8% in the 52 weeks ended June 11, according to A.C. Nielsen Co. And the slide continues, with Kellogg's share slipping to 33.8% in the four weeks prior to June 11. It's a costly slide: Each point of market share represents \$64 million in revenues.

Kellogg missed the oat-bran craze and never regained its strength after that fizzled. Analyst McMillin figures Kellogg has just 30% of the market among cereals introduced in the past four years. In addition, private-label versions of such standbys as cornflakes have undercut

Kellogg while it hiked prices for its cereals. Meanwhile, coupons and other promotions have added substantially to costs.

For a while, that didn't seem to matter. Kellogg simply kept raising prices—six times in the past three years. As a result, a 19-ounce box of Rice Krispies now goes for about \$4.20. Trouble is, Langbo has cut back on coupons at the same time Kellogg has raised prices. Last year, 9 of the top 10 coupon-issuing companies in the U.S., including Kellogg, cut back, according to NCH Promotional Services in Lincolnshire, Ill. Then last November, Langbo signaled to analysts that Kellogg would cut back further on promotions and instead spend on ads to build its brand names. In the first quarter, he boosted national advertising 29%, to \$119.1 million, against an industry gain of 26.5%, according to 1994 Competitive Media Reporting.

Kellogg's market-share slide, however, only worsened after rival General Mills Inc. decided this spring to drop its prices. Kellogg's painful choice, then:

Keep prices high and give up market share, or match rivals' prices at the expense of profits. For now, says Goldman, Sachs & Co. food analyst Nomi Ghez: "The focus is back on profitability."

The question of balancing market share and profits will be topmost on Knowlton's agenda. If he can succeed, he may go far. Back in 1983, the head of the then-underperforming U.S. operations was given what was, at best, a lateral transfer to head up Mrs. Smith's Frozen Foods Co., where he turned in a solid performance. His name: Arnold Langbo.

*By James B. Treece in Detroit, with Greg Burns in Chicago*



JAPAN



## ENDURING ENDAKA

A surging yen makes Japan jumpy—but shouldn't hurt long term

**H**enry D.G. Wallace knows firsthand the shock of the surging yen. The veteran Ford Motor Co. manager just moved to Hiroshima to help fix Mazda Motor Corp., which is 25% owned by Ford and lost \$466 million last year. The yen's might has made a difficult fix-it job a lot tougher. "Even at 105 [yen to the dollar], we were in a loss-making position," says Wallace, a Mazda executive vice-president. "And now we've seen it strengthen to 97."

The yen's surge beyond the psychologically sensitive 100 yen/dollar threshold is sending tremors throughout Japanese boardrooms. Executives are worried that the costlier yen will further drive up prices of their exports and force them to move even more manufacturing overseas—all at the cost of jobs in recession-weary Japan. "I worry that after all this waiting, *endaka* [the surging yen] will throw water on our economic recovery," says Takashi Kitaoka, president of Mitsubishi Electric Corp.

It's crunch time, all right. But any rival or investor betting that the latest yen

surge will permanently weaken Japan's competitive position is making a big mistake. Instead, the chances are that after considerable pain and readjustment, major Japanese corporations will learn how to live with a stronger yen—and keep up the pressure on rivals worldwide.

Of course, the stronger yen does give U.S. companies a major opportunity to regain some turf, especially in key areas such as autos. Christopher W. Cedergren, senior vice-president at market researcher AutoPacific Group Inc., reckons that prices on Japanese cars in the U.S. could rise 6% to 8% this fall. In contrast, General Motors Corp. recently

announced an average price hike of only 2.9% for its 1995 models. Ford's price will be up just 2.2%. In Japan's home market, too, cheaper imports from the U.S. and Europe are rising rapidly.

The reality, though, is that Japanese executives have been coping pretty well with *endaka* for years. "The usual cost-cutting methods for

**JAPAN'S MINT:** Japan Inc. are still working quite nicely," says Jesper Koll, chief economist at S.G. Warburg Securities (Japan) Inc. He and others believe Japan's ostensible high-yen ills are overblown. The betting in Japan is that Japan's new Socialist Prime Minister, Tomiichi Murayama, is unlikely to rile business by succumbing to pressure from President Clinton for more open Japanese markets. And Koll's data indicate that Japanese companies have managed to cut costs at the same rate the yen has risen (chart).

**FEW PROSPECTS.** Mazda, for example, plans to shed 3,000 jobs. It's also paring model offerings and streamlining distribution. Wallace says measures now under way will make the company profitable at 100 yen to the dollar and eventually at 95. "We're making sure we're structured to face uncertainties," he says. Mitsubishi Motors Corp. is boosting car production at its Normandy (Ill.) plant to diminish exposure to exchange rate risk. "This will help make us more price-competitive, so I expect our sales to rise this year," says Taiji Yokoyama, managing director.

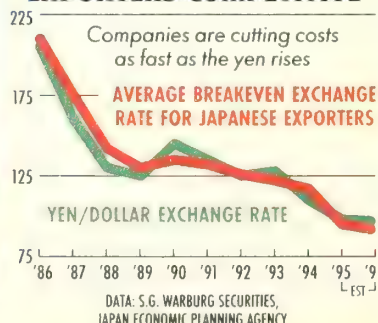
The cost-saving strategies of Japan's mightiest corporations will have a short-term impact on the labor market. Soon-to-graduate college students now face the prospect of no job offers. "The situation is very severe," says Takeshi Furuhata, deputy placement director at Kokugakuin University in Tokyo. He says offers for his students are down by about 30% from last year. Hardest hit are young women grads, again, whom companies still feel free to discriminate.

Still, few experts see much danger for serious unemployment in Japan. The jobless rate now stands at a modest and stable 2.8%. The darkest of pessimists predict something a bit more than 3%, far below other major economies. Indeed, employment rose 0.5% in May, even as the yen w



**MURAYAMA WON'T PRESS FOR DEREGULATION**

## KEEPING JAPAN'S EXPORTERS COMPETITIVE





mbing. Warburg's Koll says Japan's service sector has added an average of 10,000 jobs a month since Japan's recession started in 1991, soaking up workers who might otherwise be idle. Helping lead the way are discount retailers and health-care providers.

These employed Japanese are also enjoying more consumer goods than ever. Kao Corp., Japan's largest maker of household and personal-care products, sales and profits have been growing steadily, and analysts expect that to continue. The growth comes even though

Kao Vice-President Kazuya Inbe admits that competition from cheaper imports is growing more severe and that overseas rivals such as Procter & Gamble Co. are doing very well in Japan. But Inbe says Kao remains determined to maintain "reasonable" prices of the threat.

Helping Kao hold the line on prices at home is the fact that a surging yen cuts both ways for Japanese companies. While Kao's rivals can sell at lower prices in Japan, every uptick in the yen lowers the costs of the vast quantities of raw materials Kao buys from abroad.

By making investment overseas cheaper, the stronger yen is also helping Japanese companies turn most of Asia into an industrial suburb of Japan (BW—May 23). Japanese companies are continuing to blanket Asia with plants and marketing organizations at discount prices. "The yen problem is short-term," says AutoPacific's Cedergren. Longer term, given their zeal for cost reduction, the Japanese likely will turn their problems into a competitive advantage.

*By Robert Neff and Larry Holyoke in Tokyo, with bureau reports*

DE

## MAYBE SIX CAN WRESTLE JAPAN TO THE TRADE MAT

Will multilateral deals and monetary policy work where one-on-one hasn't?

Even Bill Clinton couldn't quite believe it. At a hastily called White House meeting on June 29, the president and his Japan-hands erupted in belly laughs over the strange turn of events in Tokyo: Tomiichi Murayama, leader of Japan's gadfly Socialist Party, had just become the fourth Japanese head of government in a year. "Gee," Clinton chortled, "and I didn't even get a chance to meet the last Prime Minister."

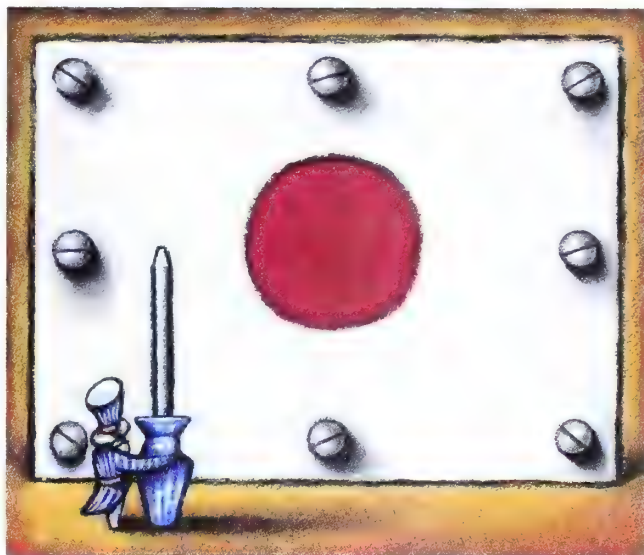
But the guffaws quickly gave way to sober debate as the Clintonites were once again forced to revise tactics for dealing with their most vexing economic rival. Forget tough rhetoric. Forget about quantitative measures to judge progress. Washington is struggling to find a new plan to finally crack Japan's closed markets.

**LEAKY ROOF.** For now, the administration intends to capitalize on a strengthening yen to keep up pressure on the Japanese. At the same time, Clinton plans to push for new multilateral trade deals to squeeze Japan further for concessions. "The Japanese are living in a leaky house with a leaky roof," snipes a senior U.S. official. "We have to force them to start taking responsibility."

Federal Reserve policymakers seemed to buy into Clinton's plan. On July 6, the central bank decided against a hike in U.S. interest rates that would have stemmed the dollar's slide against the yen. The White House believes the problem is not that the dollar is too weak but that the yen is overvalued against other world currencies. The Fed agreed,

deciding it was more important to keep the U.S. economy growing than to rescue the dollar. "The Fed is letting Japan know what it already suspected," says former Fed Vice-Chairman Manuel H. Johnson Jr. "The U.S. won't shoot itself in the foot for the Japanese."

Clinton intended to deliver another message on July 8 as he and the new Japanese Prime Minister gather for the



annual economic summit of industrialized nations in Naples. Instead of focusing on U.S.-Japanese frictions, the President was set to announce an initiative for global trade and investment talks led by all seven summit nations.

The new effort would grapple with issues left unresolved under the General Agreement on Tariffs & Trade last year. They include protection of copyrights and patents, deregulation, new codes for foreign investment, and country-to-

country enforcement of antitrust laws. Japan has resisted U.S. entreaties to cut bilateral deals in most of these areas.

The Clintonites' hope: to place the ball squarely in Japan's court. They fear that major market-opening trade deals with Tokyo's bureaucrats are out of the question until after parliamentary elections expected this fall. So the U.S. wants to make Japan pay a price for delay. A strong yen could drive up the cost of Japanese exports, angering Japan's business executives.

**FRUITLESS TALKS.** Clinton also hopes to unite the U.S. and Europe against Tokyo. Paula Stern of the Progressive Policy Institute notes that a global approach is far preferable to slugging it out toe-to-toe with Japan, which won the public-relations battle last year by casting U.S. bilateral proposals as a form of managed trade. "To take on Japan samurai-style is bruising, and we don't come out looking good," she adds.

Administration critics note that talks have lasted more than a year without narrowing Japan's \$60 billion trade surplus with the U.S. "The Administration's policy is disintegrating right before our eyes," complains Representative Jim Kolbe (R-Ariz.), chairman of the House Wednesday Group, a Republican caucus on trade and investment. But he admits, "there's really not much anybody could do at the moment."

That sums up Clinton's dilemma. He can't control dollar-yen values, and multilateral trade deals take years to conclude. His best hope is that the rest of the industrialized world also is impatient with Tokyo. And though Japan has resisted similar pressures in the past, the strong yen's effect on exports ultimately could force it to compromise. Wishful thinking by the Clinton trade warriors? Perhaps. But right now it's all they've got.

*By Douglas Harbrecht and Paul Magnusson in Washington*

JANET ATKINSON



### OLD RIVALRIES MOVE NORTH

U.S. companies take key roles in Canada's now-open phone markets

**E**xploit brand differentiation where you can find it, marketing gurus advise. As Canada's long-distance telephone market exploded on July 1 into frenzied competition for customers, more than 200 companies began clamoring for slices of the \$5.5 billion market. Most of them offered big discounts off the rates charged by Bell Canada, the nation's Ma Bell. TelRoute Communications Inc., based in Toronto, went one better. Its ads feature a beaver wearing a Mountie's hat and saluting the Canadian flag. The message: TelRoute is "100% Canadian owned."

A modest distinction, perhaps. But almost every other major player in Canada's nascent long-distance wars has allied itself with a battle-hardened U.S. long-distance company. Stentor, the powerhouse group of nine provincial phone companies that dominates Canada's phone service, has tied up with MCI Communications Corp. Sprint Corp.



IN CANADA, CANDICE BERGEN WILL SING SPRINT'S PRAISES IN ENGLISH AND FRENCH

owns 25% of Call-Net Enterprises, now operating as Sprint Canada. And AT&T, uncharacteristically cast in the feisty upstart's role, has taken a 20% stake in Unitel Communications Inc.

Canadian regulators sparked the competitive rush by ordering Stentor to provide rivals with equal access to its big network—just as AT&T was ordered in the U.S. in 1984. Canada has tried to limit foreign involvement in its phone business—imposing a 20% cap on non-Can-

adian ownership of the country's major carriers—but both sides need one another too much to stay apart. "Canada is the largest single international market for the U.S.," says John Cahill, Sprint vice-president for the Americas. "So you're going to expand globally, you have to be there."

For their part, Canada's upstart telecom companies need U.S. technology and expertise to compete with Stentor. Unitel last year tapped Stanley B. Lack-

Commentary/by Catherine Arnst

### THE BABY BELLS SHOULD PUT WASHINGTON ON HOLD

**T**he Baby Bells have a problem. To move into the fast lane of the Information Superhighway, they want to get into such high-growth businesses as cable television, interactive multimedia, wireless networks, and long-distance service. But the price for these unregulated prizes is high: Washington isn't about to give the Bells free run unless they forgo their local-service monopolies and accept true competition.

But, oh, how tough it is to give up a cash cow. Which is why the Regional Bell Operating Companies (RBOCs) are leaving no legal or political stone unturned to press for a hospitable legislative environment. In their strangest move yet, four of the seven RBOCs filed a motion on July 6 asking U.S. District Judge Harold H. Greene, the man who has ruled on almost every aspect of their business since the breakup of AT&T 10

years ago, to end his overseer's role. Bell Atlantic, BellSouth, NYNEX, and Southwestern Bell argue that the consent decree that Greene enforces—which bars them from providing long-distance service, making equipment, or owning cable systems in their regions—is no longer valid now that competitors are pushing into local service.

The timing is odd, to say the least. Greene's role will become a relic of the regulatory past once Congress acts on pending telecommunications legislation that will override the consent decree. Any bill passed likely will allow the Baby

Bells to move into long distance, TV, and other areas—but with the caveat that real competition must first develop in local phone markets. Industry experts expect the House and Senate to reach a compromise in September and pass a bill as early as yearend.

Court action on the motion to end the decree, meanwhile, would take years and probably fail in any case. It's hard to imagine the formidable Judge Greene deciding that, what the heck, there's no role for him in the telephone industry has overseen for 10 years.

Why are the RBOCs targeting Greene? Because they're unhappy with the legislation. "The House bill didn't give us as much as they wanted," says a BellSouth analyst. Stearns & Co. analyst Marion Bond says, "This petition is the Bells' attempt to vocalize all their trepidations over the final bill and have someone hear them." **GRIPING.** The Bells are unhappy that the merged House bills would keep them out of long distance until the Justice Dept. decides they lack "the substantial possibility of using their monopoly in the local market to impede competition. Since the RBOCs control 99.7% of their local markets, it could be years before J

One analyst says the Bells never got "the gene for marketing savvy"



, former head of AT&T's consumer long-distance business, as its CEO. And on July 11, Sprint Canada plans to roll out an ad campaign that mimics Sprint's U.S. efforts, featuring Candice Bergen promoting Sprint Canada's savings plan. The main difference: Bergen will *parler français* as well as English.

Advanced technologies developed in the U.S. are also spreading north. In 1992, Stentor paid \$150 million to lease MCI's so-called intelligent network, which among other things allows corporate customers of Stentor and MCI to create private networks linking operations on both sides of the border. It could have taken years "for us to develop all these services by ourselves," says Brian Canfield, CEO of BC Telecom Inc. and chairman of Stentor. In turn, MCI executive Vice-President Eugene Eidenberg says, "that's helped us increase our market share," especially among U.S. companies with big operations in Canada. **CUTS.** Stentor remains Canada's telephone behemoth, even after deregulation. It controls 95% of Canada's residential long-distance business and 75% of its business market, says Canfield. Unlike AT&T in the U.S., Stentor companies can keep their chokehold on local phone business. They remain fully integrated monopolies that can cross-subsidize their long-distance business," charges Joseph P. Nacchio, president of AT&T's Consumer Communications Services and a Unitel board member. Stentor denies the subsidies.

The challengers plan to hit Stentor hard. Discounts of up to 30% off the bigger company's rates could pry enough business away to cut Stentor's overall market share to as little as 67% by 1998, figures Jonathan L. Robinson, an analyst at Toronto brokerage ScotiaMcLeod Inc.

But how tough the rivals can afford to be isn't clear. Last year, Call-Net—Sprint Canada's parent—lost \$2 million on sales of \$96 million. Unitel dropped almost \$150 million on sales of \$310 million. But Bell Canada, which serves the lucrative Ontario and Quebec markets, is one of the country's most profitable companies. It earned \$627 million on sales of \$5.8 billion in 1993 and is now cutting costs sharply to stay a moneymaker. "We're worried about whether the competition can be sustained," says Joseph Schmidt, president of the Canadian Business Telecommunications Alliance, which represents business users.

Of course, losses are hardly surprising at this early stage. And profitability should improve "as the industry consolidates over the next six to nine months," predicts Juri Koor, CEO of Sprint Canada. Like many observers, he expects the field to shrink to Unitel, Sprint Canada, Stentor, and a few others. Can the new rivals thrive as MCI and Sprint have in the U.S.? It all depends on regulators' vigilance. So far, Stentor has come out just as strong, if not stronger, than the post-monopoly AT&T.

*By William C. Symonds in Toronto*

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**WHAT'S THE FREQUENCY? THE BELLS COULD DO BETTER IN CELLULAR**

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vestiture," says Salomon Brothers Inc. analyst Jack B. Grubman.

Perhaps the Bells should stop worrying about winning in Washington and figure out how to win in the real world.

*Arnst is BUSINESS WEEK's telecommunications editor.*

## MERGERS

# A MARRIAGE OF CONVERGENCE

Why networkers SynOptics and Wellfleet need to merge

Investors didn't cotton to the July 5 news of a \$1.2 billion merger agreement from computer networking heavyweights SynOptics Communications Inc. and Wellfleet Communications Inc. Wellfleet's stock dropped 20% on the announcement; SynOptics' lost 7%.

Get past the market angst, though, and the merger embodies a powerful drive toward consolidation in networking. SynOptics is second after Cabletron Systems Inc. in the \$1.9 billion market for "hub" computers that connect local office networks; Wellfleet trails only Cisco Systems Inc. in the \$4 billion market for "routers," key components to nationwide and global networks. The union would provide customers with "one-stop shopping," says SynOptics Chief Executive Andrew K. Ludwick, who would head the combined company.

Indeed, analysts say converging network technologies are blurring traditional market divisions. "These markets are increasingly coming together," says Gigi Wang, a vice-president at researcher International Data Corp. She predicts that companies without the resources to keep abreast of rapid technology changes will be forced to combine—or fall by the wayside. Indeed, without the merger, earnings could fall 24% this year—to \$71.5 million, at SynOptics. Wellfleet's high-price niche has come under attack from dozens of lower-cost suppliers.

As new, even higher-speed technologies reshape the market, analysts say, suppliers must invest huge sums in research and development—putting smaller companies at a disadvantage. More important, customers want fewer suppliers knocking on their doors. Stephen White, manager of local-area networking for Chevron Corp.'s Information Technology Co., wants "one network-management system to troubleshoot and support these different technologies." Bring on the mergers.

*By Gary McWilliams in Boston*



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Commentary/by Howard Gleckman

## UNCLE SAM'S STATS: CALL THEM UNRELIABLE

In late June, the U.S. government reported that the trade deficit for April jumped 20%, to \$8.4 billion. Predictably, the world's currency markets went nuts. Moments after the figure moved on the financial wires, the dollar collapsed and U.S. bond prices plummeted.

On July 13, another bit of official econo-data, the consumer price index, will draw its own keen following. Government retirees and Social Security recipients watch the CPI because their annual cost-of-living adjustments are based on the index. Politicians latch on to the number as they debate the need for higher interest rates.

There's just one problem: The trade-deficit is almost surely overstated. So is the CPI. That means pensioners are getting an artificial sweetener in their COLAS. And all those bond traders are betting on flawed numbers from statisticians two steps behind the economy.

In a classic example of shortsightedness, Uncle Sam has been starving his statistical agencies for more than a decade, denying funding to improve data collection and analysis. As a result, the numbers that move financial markets and policymakers are misleading at best. "The economy doesn't stand still," says former Commissioner of Labor Statistics Janet L. Norwood. "We need a statistical system that can change with it."

**HIGH-TECH TANGLE.** The trade deficit is a prime example. Government statistics show U.S. exports falling far short of imports. But privately, government economists believe they are underestimating the value of U.S. exports by 10% or so. If true, much of the shortfall vanishes.

One reason for the low estimate: Computer software, an industry dominated by U.S. producers, barely shows up in the reams of government trade numbers. According to the Commerce Dept., which is supposed to track such things, software exports last year were \$385 million. No one knows for sure

what the true number is, but \$385 million isn't close: Microsoft Corp.'s international sales alone were five times that last year. That suggests the government may be undercounting as much as \$4 billion in software exports—4% of the total trade shortfall.

How did the data get so bollixed up? The government calculates only the value of instruction manuals and the blank disks upon which the pro-

gram that personal computers represent less than 1% of household purchases—too low now. It also fails to reflect the difference between doctors' charges and actual, lower reimbursements from insurers. More critical, the CPI doesn't accurately gauge the inflation-dampening effect of discounters such as Wal-Mart. "Everybody knows the CPI overstates inflation," says Kemper Financial Services Inc. economist John E. Silvia.

**NEW BASKET.** At least the CPI is going to get fixed. Congress is about to give the Labor Dept. \$50 million—mostly to recalculate the "market basket" that people actually buy. But not because of newfound concern for accuracy. Instead, lawmakers see it as an easy way to cut cost-of-living hikes for retirees. The Congressional Budget Office figures that a 0.5% cut in the CPI would save a cool \$25 billion over the next five years. "If you really want to cut the deficit," says one senior official, "the best investment you can make is to get more money into the Bureau of Labor Statistics."

Spending money to update inflation indexes and properly measure trade balances would surely meet the test of any cost-benefit analysis. But breaking down the inefficient fiefdoms that dominate the government data business would also help. For instance, raw trade data are now collected by one agency but massaged and published by two others. It's no surprise the numbers are a mess.

At a minimum, this overlap should be eliminated. And it's time to go one step further. Canada has a single statistical agency, a model of effective data collection and analysis. Its inflation market-basket is studiously revised every four or five years. The U.S. could do worse than copying that system. Done properly, it would save money and more accurately gauge the economy. That would help bring bond traders, pensioners, and politicians back to reality.

*Gleckman covers economic trends.*



grams are written. The value of the software itself simply disappears. So a program that sells for \$300 registers on trade books at \$5 or \$10.

It's the same with inflation, now officially at about 3%. The CPI may overstate price hikes by 0.5 to 1.5 percentage points. Why? Because it has been a decade since the index received a complete scrubbing, and it no longer reflects real buying patterns.

The CPI still assumes, for instance,

**The CPI hasn't been overhauled in a decade, so it overstates price hikes by as much as 15 percentage points**

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## LIFE WON'T BE JUST A BOWL OF CHERRY GARCIA

Whoever wins Ben & Jerry's CEO contest will have to face melting profits

**T**he advertising geniuses on Madison Avenue should be so smart. On June 13, the directors of ice cream maker Ben & Jerry's Homemade Inc. launched a national contest to find a new chief executive officer, unwittingly tapping into a fantasy popular the world over. Asked to mail in 100-word essays on "Why I Would Be A Great CEO For Ben & Jerry's," some 16,000 aspiring CEOs have showered the company's Vermont headquarters with mail. The first-place finisher gets to run Ben & Jerry's, and the runner-up gets—yes, it's true—a lifetime supply of ice cream. Even the losers get something: a rejection letter "suitable for framing."

Many applicants are as unconventional as Ben & Jerry's, an outfit known as much for sharing its wealth with the poor as for its incredibly rich ice cream. An entire fifth-grade class sent in letters (some students offering to develop new ice cream flavors). An advertising executive attached his resumé to a Superman costume. One woman sent in a near-nude photo of herself, and other, less salacious resúmes have arrived from as far as London and India.

To get noticed, Johanna Bamesberger, a 30-year-old schoolteacher from Valparaiso, Ind., scrawled her essay on a painting of a woman reading a children's book. No, she has never run a company, but "I'm hoping there would be people there that could guide me along," she says. Allen Stillman, head of Smith & Wollensky, a New York restaurant chain, claims he was serious when he put a full-page ad in the *New York Times* offering his services. But he says Ben & Jerry's would have to let him work from Manhattan,

huffing: "I'd never move to Vermont." The company claims the more serious applicants include three executives from archrival Häagen-Dazs Co., though it won't disclose their names.

Behind the hype, Ben & Jerry's seriously needs help. With about \$154 million in sales and an expected \$6 million in profits this year, the company has outgrown the management skills of its founders. Like Steve Jobs at Apple Computer Inc. and Mitch Kapor at Lotus Development Corp., Ben & Jerry's co-founder and CEO Bennett R. Cohen—a college dropout—decided to step down as chief exec. "I feel really stretched trying

FOUNDERS COHEN AND GREENFIELD RECEIVED SOME 16,000 RESPONSES

to run an organization of this size," says Cohen, who'll stay on as chairman.

After scooping up double-digit annual sales growth since its inception in 1970, the company is faltering. With profits expected to dip about \$1 million from last year, Ben & Jerry's stock has fallen from a high of nearly \$34 in Sept. 1990 to under \$17 lately.

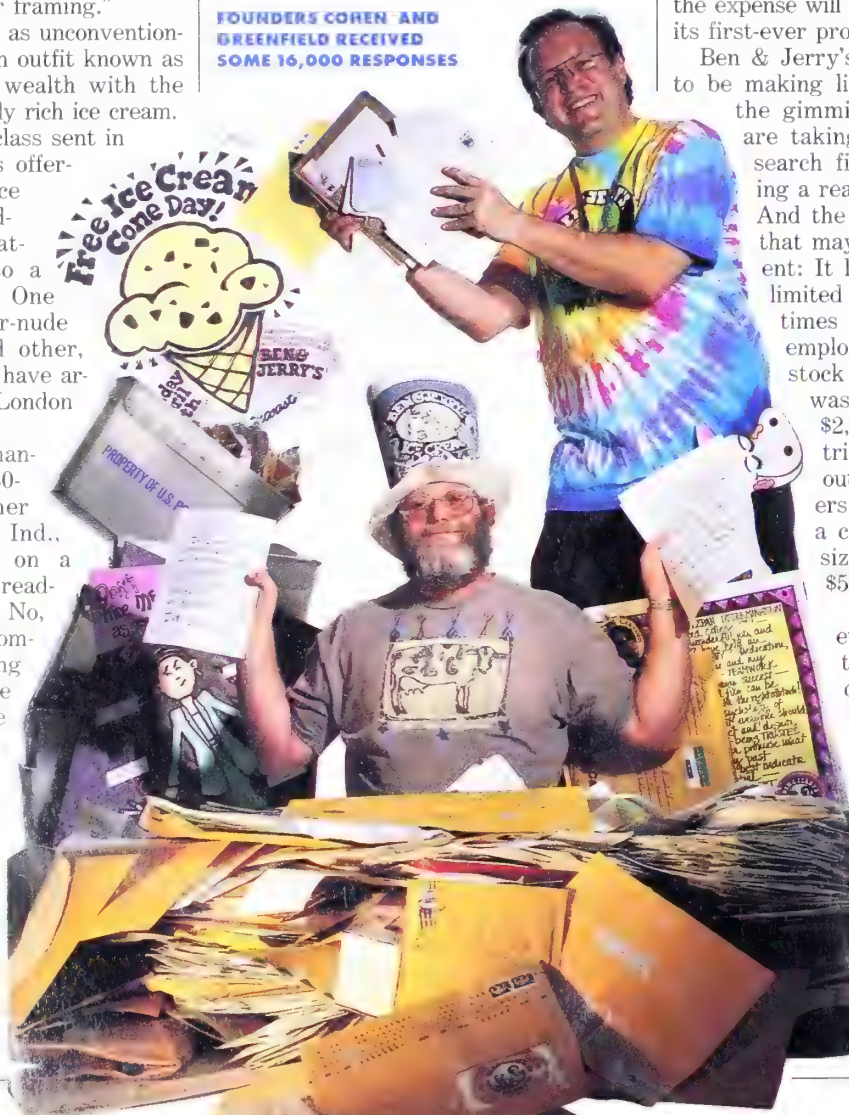
Why the meltdown? One reason is that Ben & Jerry's core U.S. market—super-premium ice cream sold in grocery stores—slowed to just a 4% gain last year. To return to double-digit growth, the company needs new markets. One target is Europe, but Ben & Jerry's has yet to develop a coherent international strategy. That will be a key job for the new CEO, says chief financial officer, Frances Rathke.

**CAPS OFF.** Another issue is controlling expenses. Ben & Jerry's has subcontracted about 40% of its ice cream production to a costly outside supplier. A new \$35 million manufacturing plant is under construction, but analysts say that the expense will help give Ben & Jerry's its first-ever profit decline this year.

Ben & Jerry's directors may appear to be making light of their task with the gimmicky contest—but they are taking the job seriously. A search firm will start developing a realistic list of candidates. And the board made a decision that may be critical for top talent: It lifted a salary cap that limited the CEO's pay to seven times that of the lowest-paid employee. While Cohen owns stock worth \$18 million, he was paid just \$133,212 plus \$2,664 in retirement contributions last year, without stock options. Recruiters say the going rate for a company Ben & Jerry's size is from \$300,000 to \$500,000.

No matter how big the eventual CEO's paycheck, the mood around headquarters will likely remain perpetually upbeat. "We can grow as fast as we want," says Cohen. An successor would have to be just as ebullient—but even more savvy about laying out a long-term game plan for one of America's quirkiest companies.

By Geoffrey Smith  
in Waterbury, Vt.





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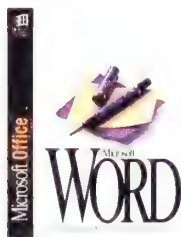
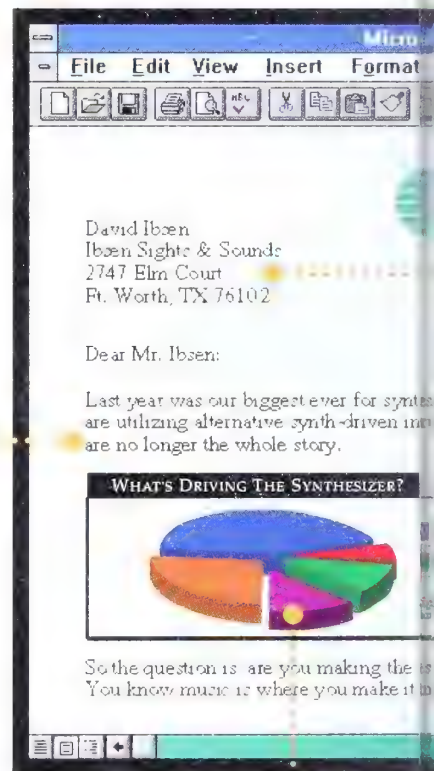
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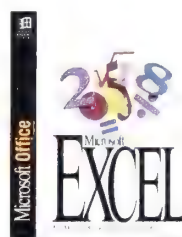
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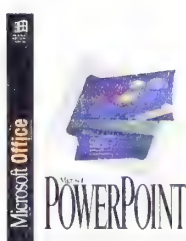


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EDITED BY KEITH H. HAMMONDS

## THE BIG SLIM-DOWN AT TOP-HEAVY TEXACO

Oil prices aren't what they were in the early 1980s, but oil companies, top-heavy with infrastructure and vertically diversified operations, still are. Now, some of the biggest are cutting back. On July 5, Texaco announced a \$300 million plan to sell or swap half of its 600 U.S. oil fields, eliminate management layers in its refining and marketing units, and reduce its 32,000-employee workforce by 8%. Texaco will take a \$165 million charge in the second quarter to reflect the layoffs and the write-down of certain assets; \$50 million of that will cover the \$1 billion April sale of its chemicals busi-

ness. The gamble: that big investments in Russia and China will pay off.

## SOUTHWEST THROWS DOWN THE GAUNTLET

Who's nervous now? With United Airlines set to launch short-haul service on the West Coast if its employee buyout goes through, Southwest Airlines vows to fight back—by going after some of United's long-haul business. Analysts doubt that cautious Southwest CEO Herb Kelleher will abandon his primary focus on shorter routes. Still, even rivals say Kelleher isn't just blowing smoke. Already, about 6.5% of Southwest's flights are longer than two hours. And with the delivery of new Boeing 737-X aircraft set for 1997, Southwest could offer transcontinental flights. Consultant Michael Boyd of Aviation Systems Research, for one, believes United, saddled with higher costs, is likely to lose any head-to-head battle with Southwest.

## ANOTHER BEER BLAST FROM NAFTA

Credit the North American Free Trade Agreement for dramatically rearranging the beer business. On July 6, Canadian brewer John Labatt and Mexico's Fomento Economico Mexicano (FEMSA) announced they are forming a "North American Beer Partnership." Labatt will pay \$510 million for 22% of FEMSA's beer subsidiary, best known for its Dos Equis and Tecate brands. In addition to distributing one another's brews in Mexico and Canada, the two companies plan to wage a joint assault on the U.S. market. In a similar hookup, Miller Brewing last year purchased 20% of Molson Breweries of Canada. And last summer, Anheuser-Busch paid \$477 million for 18% of Mexico's Grupo Modelo, which makes Corona suds.

## HEADLINER

### THIS RAILROAD MAN JUST LOVES TRUCKS

When Santa Fe Pacific Chairman Robert Krebs looks at the railroad industry, he sees trucks—hundreds of thousands of truck trailers riding his railroad across the U.S., carrying everything from car parts to cat food.

Soon, Krebs will bring his vision of so-called intermodal transportation to a much larger railroad—the proposed combination of Santa Fe and Burlington Northern Railroad. The \$2.7 billion deal, announced June 30, would create the continent's largest railway, running from Winnipeg to El Paso. Krebs, 52, would be CEO of the new company.



Krebs moved intermodal shipping to center stage four years ago in a joint venture with J.B. Hunt Transport, one of the country's biggest trucking companies. "Nobody believed in intermodal not that long ago," says PaineWebber analyst Anthony Hatch. But last year, intermodal shipping represented 40% of Santa Fe's revenues. The industry average is 16%. Krebs, a 30-year industry veteran, also is a hard-nosed manager who has cut Santa Fe's workforce by 11,000, pared \$3.6 billion in debt, and boosted profits. He sees trucks on the rails—and he makes them pay off.

By Susan Chandler

## IS IT TIME TO GIFT WRAP GIBSON?

Send get-well cards to Gibson Greetings. On July 1, just months after taking \$19.7 million in charges to cover losses on derivatives contracts, the greeting-card marketer announced another financial explosion. Earnings for 1993 were overstated by about 20%, Gibson says, because its Cleo gift-wrap subsidiary inflated inventories. It believes the overstatement came from improper allocation of overhead. Gibson's stock sank 14% after the disclosure, to \$13.75, less than half its price in early 1992. That has prompted speculation that Gibson could find itself a takeover target.

## WHY SALOMON IS SO LIGHTLY BUFFETED

The brokerage slump has finally caught up with Salomon. On July 6, the Wall

Street giant announced that it will report a second-quarter loss of about \$200 million. Salomon's stock dropped 4% on the news, to 45½—the first real hit it has taken this year. One big reason for its strength: investor Warren Buffett. Berkshire Hathaway Buffett's investment company, added 200,000 shares of Salomon's holdings in May, according to a Securities & Exchange Commission filing. And this May, Buffett got a O.K. from Salomon's board to up his 20% stake to 25%.

## ET CETERA...

- Dime Bancorp and Anchor Bancorp will merge, in a stock deal worth \$1.2 billion.
- Motorola agreed to buy IBM's 50% stake in its Ardis wireless data network.
- Digital Equipment confirmed talks to sell part of its disk-drive unit to Quantum.
- No *Lion King* in Beijing: China will limit foreign film to 30% of its total market.

## CLOSING BELL



### BENNETT'S LAST SPIN?

For years, William Bennett cleaned up in Las Vegas. He bought a dingy casino with a partner in 1974 and turned it into the strip's most profitable gambling company. Now, Circus Circus Enterprises is struggling, and Chairman Bennett, who holds a 7.8% stake, may be on his way out. Impatient investors say Circus remains profitable, but its Excalibur and pyramid-shaped luxury casinos have fallen behind rivals. Operating margins have dropped, and the share price had plunged 41% this year by June 30. Now, Bally Entertainment is seeking federal approval to take a 25% stake in Circus. Its bid could bring in other investors, such as Caesars World.



## MUTUAL FUNDS: DOES WASHINGTON NEED MORE COPS ON THE BEAT?

**M**utual funds have been riding the crest of spectacular growth. Lured by the prospect of dazzling yields, investors have forsaken the security of federally insured deposits and pumped a staggering \$2.1 trillion into funds. Three recent controversies, however, threaten not only to undermine public confidence in the mutual-fund industry but also to embolden Congress to impose regulations whose cost would ultimately be borne by investors.

To discourage an overreaction by lawmakers, the Securities and Exchange Commission wants to expand its monitoring of the funds. But that move is likely to founder in Congress, which is reluctant to give SEC Chairman Arthur Levitt Jr. a bigger budget. That gives the industry an opportunity to clean up its own act. Indeed, the funds are eager to take advantage of the chance because they know the price of doing nothing could be investor flight and congressional meddling.

**CARE STORIES.** The trouble began in January when Denver-based Invesco Fund Group Inc. fired a star portfolio manager for allegedly failing to report personal trades. That set off a firestorm by bringing to light a common but little known industry practice of letting managers trade for their own accounts. Next came reports of major derivative-trading losses, triggering scare stories about the safety of funds heavily involved in these financial instruments. Then, in June, Fidelity Investments, the largest mutual fund manager, admitted that it reported day-old prices for some funds.

The biggest headache for now involves derivatives, which are based on movements in stock, bond, and currency prices. Many funds plunged in value this year as an unexpected hike in interest rates hit derivatives hard. Levitt promptly told the industry to produce a plan to dump the riskiest securities.

Some members of Congress are alarmed about the use of derivatives because they pose huge risks in money-market funds—which investors consider as stable as bank accounts. The potential for shaken public confidence has spurred the SEC to consider restricting derivatives. “We’re nervous, but not panic-stricken,” says SEC Commissioner Richard Y. Roberts.

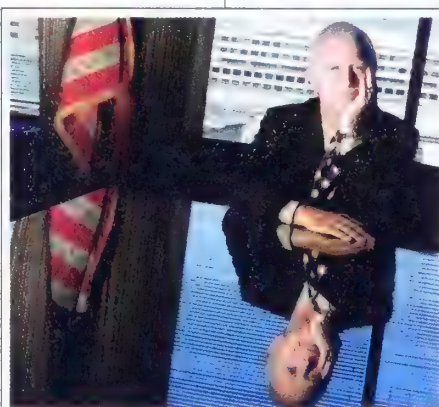
The industry, keenly aware of its need to preserve public faith, is rushing to fix its problems. It has adopted new restrictions on personal trading, taken steps to improve daily price reporting, and is working on new derivative rules.

Still, that’s just a start. The SEC wants more accountability. For example, by the time regulators receive semiannual reports, the information is outdated. But the SEC won’t seek these changes soon because it doesn’t have the staff to process loads of new data. Why? Its resources haven’t kept pace with the industry’s growth. There are just 180 examiners for 5,000 funds, and plans to hire 100 more examiners by 1996 mean funds would be examined only every two or three years.

To grow, the SEC wants to keep all industry fees it collects, a change approved by the House. But the Senate wants to keep spending most of the corporate fees elsewhere. If the SEC’s budget restraints persist, Representative Edward J. Markey (D-Mass.), head of an SEC oversight subcommittee, is threatening to push a bill that could establish a mutual-fund self-regulatory agency.

To be sure, the industry’s admirable record until now lends scant support for overhauling a regulatory system that has worked since 1940. But without better oversight, a new bureaucracy is just what the funds may get. The alternative is worse—shrinking assets in an industry that of late has known only expansion.

*By Michael Schroeder*



**SEC BOSS LEVITT: NOW HIRING**

### CAPITAL WRAPUP

#### CONGRESS

**A**fter years of failure, Corporate America seems likely to win congressional approval for some product-liability reform. The big winner: makers of private aircraft. Earlier this year, the Senate passed a bill to curb their liability for damages in accidents, and the House followed suit on June 27. Now, lawmakers are trying to reconcile their differences. The Senate limits liability for all general-aviation products to 18 years, while the House calls for a sliding scale ranging from 15 years for piston-engine planes to 22 years for jets. A compromise would spell a major defeat for the powerful

Association of Trial Lawyers of America, which barely blocked broader reform on June 29. That could mean relief for other industries down the road.

#### THE WHITE HOUSE

**T**rustees of President Clinton’s legal-expense fund are eyeing a direct-mail campaign to raise up to \$2 million in expected lawyers’ bills to fight sexual harassment and Whitewater-related charges. Donors to the Democratic Party and Clinton’s Presidential campaign likely would be tapped first. Meanwhile, the White House counsel’s office is warning staffers against personally soliciting donations, which are limited to \$1,000 a year for individuals.

#### POLITICS

**P**olitical football, anyone? Oklahoma Republicans, fresh from intercepting a House seat from Democrats in a special election, have recruited two gridiron legends for this fall’s contest: Steve Largent, an ex-All-Pro end for the Seattle Seahawks, and J. C. Watts, former All-Conference quarterback for the University of Oklahoma. Largent skirted an NFL showdown when ex-Miami Dolphins receiver Howard Twilley, a Democrat, took a pass on the race. The GOP hopes to win a majority of the state’s congressional delegation for the first time ever. Sooner or later, their game plan may be successful.



CHINA



VW PLANT IN SHANGHAI: SO SUCCESSFUL IT'S ALREADY STRUGGLING TO KEEP UP WITH DEMAND

## CAN BEIJING JUMP-START CARS?

China is pushing hard to remake its chaotic auto industry

**C**hina's domestic car industry has not gotten much of a boost from the country's officialdom. For many cadres eager to show off their clout, a snazzy import is almost de rigueur. The situation has gotten so bad that coastal Zhejiang province recently commanded officials to stop driving high-priced imported cars. Last month, a state-run weekly lambasted the foreign-car fetish of officials: "Though all their money comes on loan, it's an imported car they want to own."

The anti-import campaign is now getting some teeth. In an example of Chinese-style industrial policy, Beijing in early July unveiled a plan to nearly triple production and transform the struggling domestic auto industry into a global force within 15 years. To choke off auto imports, the government wants to lure foreign producers into making investments first in Chinese components factories. Beijing then plans to reward those companies by allowing them to form the handful of new joint ventures that will be permitted to manufacture

automobiles for the Chinese market.

The goal is to rationalize an industry plagued by the legacy of Maoist-era planners. By dangling the carrot of access to its huge market, Beijing wants to get foreigners to provide technology and jobs. If all goes according to plan, the Chinese government will have transformed its components industry and created an assembly infrastructure to

### CHINA'S NEW AUTO STRATEGY

- ▶ Triple auto production by 2000
- ▶ Rationalize more than 125 manufacturers into a handful of giants
- ▶ Modernize manufacturing through new joint ventures with select foreign auto makers
- ▶ Create an advanced auto-parts industry with foreign technology and investment
- ▶ Cut down on imports, which grew 48% last year

DATA: BUSINESS WEEK

satisfy nearly all of China's domestic demand. Predicts Western auto executive in Beijing "Foreigners will own equity, but the product will be Chinese-designed with local content."

The plan is drawing praise from foreign auto makers. Beijing wants to increase the number of cars produced annually in China from more than 1 million to 3 million by the end of the decade. To do that it will expand the number of foreign joint ventures in 1996. Volkswagen is now the largest for-

eign auto maker in China, trailed by Peugeot, Chrysler, and Daihatsu. The government hasn't let others produce passenger cars, although it will soon announce whether Chrysler or Daimler-Benz will be the winner of a \$1.2 billion minivan project. With the ban now set to expire in 1996, rivals see a chance to join the elite order of dominant players.

Indeed, China's appetite for cars has foreign makers salivating. While sales of Chinese-made autos increased 23% last year, imports were up 48%, to 310,000—despite import duties of more than 200%. Smugglers brought in about 200,000 more. "This market is so big, we don't have the capacity to satisfy all the customers who are demanding our cars now," says Rolf Kaste, senior manager at Shanghai-Volkswagen Automotive Co.

**"A KID'S PLAYROOM."** The government expects the new plan to save its troubled components industry. Countless small factories scattered around the country currently supply low-quality parts to more than 125 auto and truck manufacturers. "The components industry looks like a kid's playroom," says Jack Perkowski, president of Asian Strategic Investments Corp. "They've got blocks strewn everywhere, but they can't build anything."

Fixing the mess is a priority for Beijing. The government "will favor foreign companies that help China develop and manufacture auto components," says Ye Qing, vice-minister at the State Planning Commission. That message has not been lost on Ford Motor Co. Last month, it announced a \$50 million in-



vestment in joint ventures to produce windshields, dashboards, and other parts. Meanwhile, Perkowski's group has 160 million earmarked for China's components industry.

Ford hopes its investment will give it an edge in 1996, when the government opens the passenger-car market to new manufacturers. After that, the government will group auto makers and suppliers into three conglomerates and seven smaller companies. Beijing will retain its hand in the market by forcing conglomerates to report to Vice-Premier Li Changxing, who began his career as a planner for state auto companies.

**INSTABILITY.** Giving a role to planners in Beijing troubles some analysts. "They will have bureaucrats who don't understand a market controlling the process again," says Kim Woodard, a consultant for A.T. Kearney in Hong Kong. Local content rules also worry some industry officials. New regulations force joint ventures to use 40% locally produced components at the start of new ventures and more in subsequent years. That's no problem for Volkswagen, which already uses more than 80% domestic parts. But General Motors Corp.'s struggling truck joint venture, formed last year, relies almost entirely on imported parts. "A joint venture won't be able to import the parts it wants," frets a Western official in Beijing.

The new policy moves have left some auto makers skeptical of Chinese motives. "They want the manufacturing business to themselves," says Juichi Taniguchi, head of overseas planning for Daihatsu Motor Corp., which has a licensing agreement with Tianjin Automotive Industry Corp. In general, the Japanese have been especially wary of the instability of the Chinese market. In early July, Beijing dispatched a delegation to Japan to drum up business. Yet it may not be such a hard sell. According to a recent industry poll, 70% of Japanese auto-parts makers want to set up shop in China—and half of them have already taken initial steps.

China's scheme to protect its infant auto industry could still come undone. The government wants to join the General Agreement on Tariffs & Trade, which frowns on countries linking foreign investment decisions to trade matters. Moreover, the vicissitudes of Chinese policymaking add risk to any venture. After austerity plans forced free-wheeling government officials suddenly to account for their expenses last year, auto sales dropped. But they soon bounced back. In a market with China's growth potential, a homegrown auto industry seems a natural.

By Matt Forney in Beijing, with Neil Ross in Tokyo

## TRANSPORTATION

# THAT SINKING FEELING AT AIRBUS

Are recent crashes due to pilot error—or are the planes to blame?



THE TOULOUSE ACCIDENT OCCURRED DURING A TEST WHILE THE PLANE WAS ON AUTOPILOT

**S**weaty-palmed airline passengers have fresh cause to feel nervous: A rash of crashes has sent the global air-death toll soaring—topping the level for all of 1993 in just over six months (chart). Three jets fell from the skies in the first three days of July alone: an Airbus test plane in France, a Fokker jet in Mauritania, and a USAir Inc. DC-9 in North Carolina.

Although chance may account for this year's accident surge, it could spell trouble for Europe's Airbus Industrie and the airlines that fly its planes. Three of them have crashed, and a fourth burned on the ground. Bigger rival Boeing Co., meanwhile, has suffered only three major accidents in 1994. Some are again questioning the cutting-edge technology that's an Airbus trademark. "We're very concerned that [such technology] may have gone too far," says Hans Krakauer, an official of the International Airline Passengers Assn.

That issue has dogged Airbus since 1988, when it delivered the industry's first "fly-by-wire" airliner—an electronically controlled jet whose computer can

override pilot maneuvers it considers dangerous. But critics claim this safety system may cause accidents, if it malfunctions or if ill-trained pilots try to override it. Now, fly-by-wire is a critical issue for Boeing as well. More conservative than Airbus, the U.S. giant is only

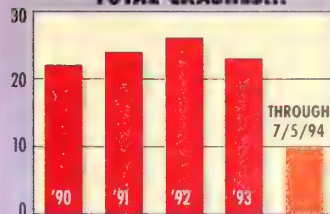
just now set to deliver its first computer-run plane, the 777.

**TOO RISKY.** Rightly or wrongly, the latest Airbus accident on July 1 in Toulouse is fueling such worries. To test a new engine on its new A330 jumbo jet, Airbus' chief pilot was simulating an emergency. On takeoff, he cut one of the two engines and put the plane on autopilot. That maneuver is too risky to try even on a plane that is not computer-controlled, says David Learmount, safety editor of *Flight International* magazine. It proved too risky on the Airbus as well. The plane failed to climb as it should have. The pilot took back manual control too late to avoid crashing. All seven crew members and passengers died.

Although the accident's precise cause isn't yet known, some see ominous similarities to two other Airbus crashes. In April, an Airbus jet flown by China Air-

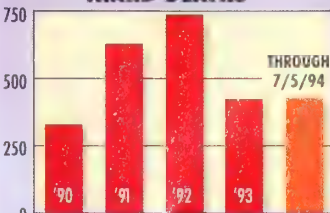
## AIR-SAFETY TRENDS

### TOTAL CRASHES...



▲ TOTAL-LOSS ACCIDENTS FOR WESTERN-BUILT COMMERCIAL JETS

### ...AND DEATHS



DATA: AIRCLAIMS LTD.



lines crashed in Japan when its pilots decided to override the autopilot during a difficult landing. And in 1988, an Airbus A320 crashed in France when its computers were unable to help it clear a forest.

For its part, Airbus is convinced that pilot error is to blame for the 14 crashes since its first model entered service in 1974. "So far, we're fortunate that no accident is directly attributable to the airplane," says a spokesman for the four-nation European consortium. He may be right. None of this year's accidents has been fully explained.

Despite the spate of accidents, the safety record of Airbus planes over time compares favorably with that of Boeing and McDonnell Douglas Corp. An executive of a U.S. airline that flies Airbus planes doubts computer control is to blame for the accidents. But "Airbus is going to have to be very careful and forthcoming," he says, to convince airlines and regulators that automation isn't at fault.

Even skeptics of fly-by-wire admit there's no solid proof it's unsafe. "It may cause some accidents, but it may prevent others—we just don't know," says

Geoffroy Bouvet, an official of France's pilots' union. Boeing aims to temper the risk of confusion between pilots and computers in its new 777, which United Airlines Inc. will start flying next May. Crews will be able to override the computer more easily than in Airbus planes.

Airplane designers clearly seem committed to computer control. Some engineers even think planes will be able to fly without pilots in a few years. But before computers can fly solo, accident investigators must prove beyond doubt that today's fly-by-wire jets are safe.

*By Stewart Toy in Paris*

## EUROPE

### THE PC MARKET: FROM COZY TO CUTTHROAT

Price wars are driving cheap Asian clones from the Continent

Just two years ago, the names of Olympic Technologies, TIKO Computer Corp., and other clonemakers used to send chills through the boardrooms of industry giants like IBM. Now both have vanished, just two victims among some 200 no-name makers that have pulled out of the European market over the past 12 months.

The battle for Europe's PC market has taken a decisive turn. Industry leaders such as Compaq, IBM, and Apple, which were slammed by cheap clones in 1992, are pushing the mainly Asian copycats off Europe's shores. In 1993, Europe's top 10 PC companies grabbed back 7% of the market and are likely to add 5%-6% to their current 57% this year, according to market researcher International Data Corp. (IDC).

**SHORT CYCLES.** That doesn't mean easy times are returning. The struggle between clones and name brands has reshaped Europe's PC market. Once a slow-moving Shangri-la of generous margins, it's now fiercely competitive, with prices between giants and second- or third-tier players varying by only about 15%. "Pricing in the U.K. and Germany is sometimes more aggressive than in the U.S.," says David L. Prais, European marketing manager for Gateway 2000, a U.S. PC maker that sells by mail.

As in the U.S., product cycles in Europe now last little more than six to eight months. That's forced manufacturers, wholesalers, and retailers to shift strategies and source locally, spelling



**LE GRAND BLEU:** IBM LOST ITS LEAD IN THE FIRST QUARTER. COMPAQ WAS NIMBLE IN SUPPLYING CUTTING-EDGE PCs

nounced plans to liquidate on Apr. 29.

The battle between big names and clones lured in a lot of first-time buyers, who have been turned off by high prices. IDC now predicts the home office/small office segment will zoom a 19.5% annually over the next five years vs. the corporate market's more mod-

est 6.1%. That has top-tier companies selling their products at new retail chains such as Germany's Vobis and France's PC Warehouse.

The giants are playing big chips on this battle because Europe's market is still less developed than the U.S.'s. One in three American households has a PC, but in Europe only one in nine does. "Europe is not only as big or bigger than the U.S. market, it's got a lot more potential," says Gateway's Prais.

One indication of the market's volatility is Compaq's recently dethroning IBM as the Continent's top PC seller. Compaq, which moved faster to revamp its strategy, outsold IBM in Europe in this year's first quarter. It led the price-cutting among top-tier companies. IBM's McCracken says Big Blue was bested mainly because shipments of two product lines—the PS/2 and the ThinkPad—were delayed by component shortages. Nonetheless, he agrees that in Europe, change is the only constant.

*By Gail Edmondson in Paris*





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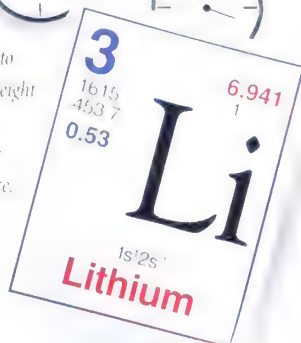




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## CENTRAL EUROPE: EX-COMMIES TO THE RESCUE?

Less than five years after the collapse of the Soviet bloc, reform-minded successors to the old communist parties are making a comeback across much of Central Europe. In Poland, the Democratic Left Alliance (SLD), led by a former communist, is the senior partner in Prime Minister Waldemar Pawlak's uneasy coalition. In Hungary, Gyula Horn, who served as Foreign Minister in the old regime, became Prime Minister in June. Former communists also run Lithuania and have a shot at power in Slovakian elections this fall.

These recycled leftists are selling themselves as experienced leaders, who can push ahead with market reforms while preserving some of the social safety net. But they are going to have a rough time meeting the fickle voters' expectations.

That's because Central Europeans are dumping the first generation of market reformers for contradictory reasons. Many are disillusioned about being left behind by the rush to capitalism. Included in this group are the many state employees, pensioners, and farmers for whom the changes have mainly meant inflation or higher risk of joblessness.

**PROTEST VOTE.** But there is another group of voters that thought the reformers were ineffectual and that veteran politicians would do a better job. In Hungary, much of the 54% of the May vote that went to Horn's Socialists was a protest against their predecessors for letting reform bog down. In last September's vote in Poland, the energetic 39-year-old SLD leader, Alexander Kwasniewski, Youth & Sport Minister under the communists, had the support of many former communist officials, who are now captains of private industry and want reform to continue.

The reemergence of these leftist leaders does not mean an early rollback of market reforms. Indeed, they could prove more effective salesmen for reform than doctrinaire free mar-

keters such as Leszek Balcerowicz, who spearheaded Poland's shock therapy in 1990. "Socialists can make the bitter pill easier to swallow," says Sandor Richter of the Vienna Institute of Comparative Economic Studies.

The former communists also know they would be stupid to throw cold water on economic growth. In Poland, where a booming private sector grew at an extraordinary 35% clip last year and where entrepreneurs have created 2.2 million jobs since 1989, Kwasniewski makes it clear that Poland cannot afford to increase its social spending. "Some people say we aren't left-oriented enough," Kwasniewski says. "But any government that would destroy growth must be killed."

**WISH LIST.** Both Kwasniewski and Horn will need healthy growth to bail them out of promises to proceed with reforms without too much social cost. Analysts doubt that Horn can keep his word to slash the predicted 1994 \$3.3 billion budget deficit by \$500 million while at the same time honoring campaign pledges to trim unemployment and raise benefits. In Poland, critics ridicule a half-baked new economic strategy, which promises to cut unemployment from 16% to 14% by 1997 while also reducing inflation from 32% to single digits, as "a great wish list."

If these programs fail, the danger is that the pragmatic left will cave in to special interests to avoid a voter backlash. Horn will be under pressure from trade unionists and other leftists in his coalition to preserve jobs. In Poland, Pawlak, whose constituency is mainly made up of farmers, has already set off alarms by slapping tariffs on imported foodstuffs. A much discussed plan to create giant state holding companies could also help kill further privatization. So it is going to take all the socialists' vaunted political skills to deliver on their good intentions.

*By Karen Lowry Miller and Stanley Reed in Warsaw*



RECYCLED LEFTIST KWASNIEWSKI

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*By Karen Lowry Miller and Stanley Reed in Warsaw*

### GLOBAL WRAPUP

#### SHIFT IN SOUTH AFRICA

The sudden departure of Finance Minister Derek L. Keys for "personal reasons" has made the markets and business nervous and handed Nelson Mandela's government a defeat. Keys, a holdover from the de Klerk administration, had pulled off the tricky task of winning wide support for a budget that socks the wealthy and middle classes with a substantial levy to pay transitional costs but avoids the wild new spending some African National Congress politicians want. Keys's successor, top banker Chris Liebenberg, 60, also enjoys the respect of the business community. But

there is some concern about whether he has the political skills and connections to sell fiscal discipline.

#### U.S.-SOUTH KOREA SPLIT?

The U.S. and South Korea seem to be at odds as the July 25 North-South summit approaches. South Korea wants to try to open up economic relations with the North. The aim would be to give Pyongyang a stake in keeping the peace and to carve out an exclusive economic preserve for the South's companies. Seoul is mulling offering limited investment in the North's Tumen River free-trade zone as well as jobs for North Koreans on big projects and tourism. But the U.S.

seems to want to keep pressure on the North to back down on its nuclear program. Strains with Washington could grow if the summit actually happens and Seoul tries to open a new chapter with the North.

#### COURT WIN FOR KOHL

The Supreme Constitutional Court is likely to clear the way for German troops to participate in missions outside NATO's area. The decision could come on July 12, when Bill Clinton visits Berlin. It will give Chancellor Helmut Kohl a green light to accommodate U.S. requests for Germany to take on more world peacekeeping tasks.



# THE GEE-WHIZ COMPANY

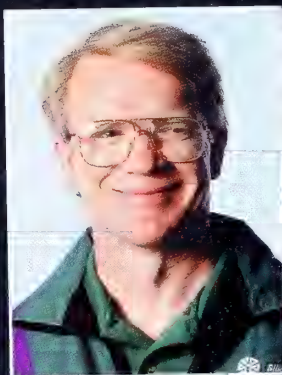
## SILICON GRAPHICS TURNS 3-D IMAGES INTO STUNNING PROFITS

*Any sufficiently advanced technology is indistinguishable from magic.*

—Arthur C. Clarke from *The Lost Worlds of 2001*.

**W**hat do you call the ability to conjure up computer-generated dinosaurs for the movie *Jurassic Park* and make them look so stunningly real that the audience gasps and cringes? Or to bring President John F. Kennedy and John Lennon alive to meet actor Tom Hanks in this summer's *Forrest Gump*? Or to let you fly impromptu dogfights in flight simulators so convincing you can lose your lunch?

Mere parlor trickery? O.K., if virtual reality



CEO McCracken

and velociraptors sound old hat, call this out: The same computers that performed these stunts have also helped design everything from jet engines to an ice-cream-bar shape that minimizes melting in the midday sun. And by giving doctors ways to locate tumors with pinpoint precision, the machines are instilling new hope in victims of once-inoperable brain cancer.

It's all the work of the most magical

computer maker on the planet: Silicon Graphics Inc. It may not have the name recognition of Apple Computer Inc. or an IBM. But not since the company dazzled the market with the trend-setting Macintosh has a computer company so captured the public imagination or promised so much

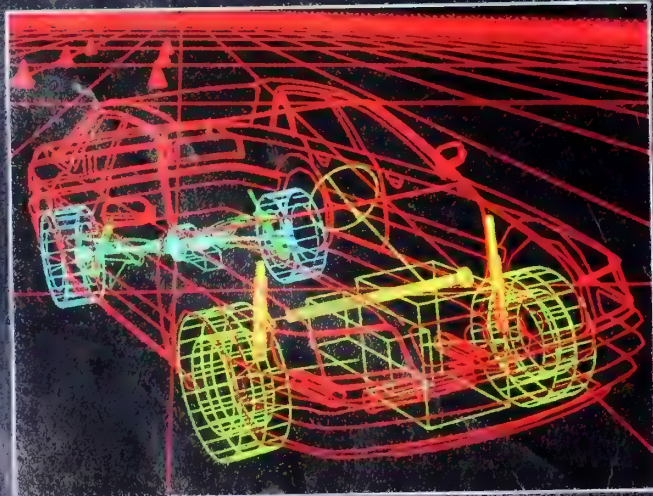
the future. From movies to molecular science, interactive TV, hyperactive video games, the digital imagery conjured up by the technology is pushing the computer industry into a new dimension—the third one, to be exact.

SGI's magic: eye-popping three-dimensional graphics. Its engineering workstations and computer servers transform reams of mind-numbing data into 3-D images that mere mortals can comprehend.

### UP FROM CLAY

SGI's images can be turned like a toy car to check anything from airflow to aesthetics.

Customers such as BMW can envision proposed designs with no need for clay models.





Whether these images are  
plane wings, population  
trends, or a theoretical  
universe. It's not just  
bringing back video, which  
multimedia PC can do.  
with Silicon Graphics machines.

Highly detailed and textured images can be  
created and viewed from any angle or modified at  
will. It's no wonder they're used—or coveted—by  
the most demanding scientists and technology  
companies.

In an industry marked by huge hype, Silicon  
Graphics is the genuine article: a truly innovative  
company with clearly unique products. "They're  
the new Apple," says Morgan Stanley & Co. analyst  
Steven M. Milunovich. Then, mulling Ap-  
ple's recent struggles, he corrects himself: "The  
Microsoft of computer graphics."

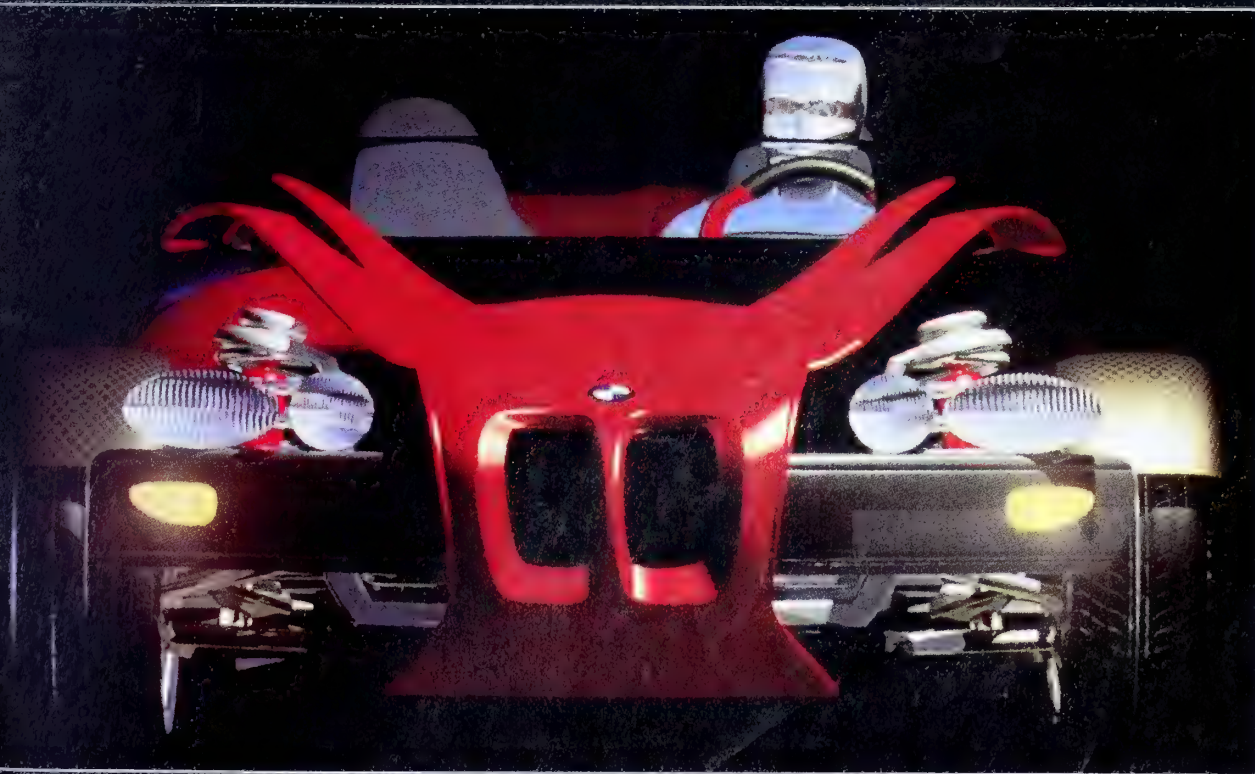
Ready stuff. But it doesn't overstate the ambi-  
tions of Chief Executive Edward R. McCracken.  
The 50-year-old engineer, a 26-year veteran of Sil-  
icon Valley, aims to bring SGI's "visual computing"

## WILD BLUE CYBERSPACE

Used by most aircraft makers, SGI  
computers greatly reduce the time  
from design to prototype to  
finished plane

to a wider audience  
in the same way Apple's  
easy-to-use Macintosh opened computing to the  
technologically challenged. Sales of multimedia  
personal computers with rudimentary graphics  
are already booming. McCracken figures that  
SGI's 3-D graphics will give the masses an enter-  
taining roadmap to cruise the Information Super-  
highway.

At first blush, McCracken seems an unlikely  
leader for SGI's bold mission. An electrical engi-  
neer by training, he hails from a Midwestern  
farming family and is known for his stiff, intro-  
verted demeanor. In short, he's no Steve Jobs.  
But don't be fooled. McCracken isn't your typical  
CEO: He encourages what is now Silicon Valley's





most freewheeling corporate culture and even takes time from his schedule to teach meditation classes for harried execs.

Most important, over the past several years, McCracken has steered SGI into a series of initiatives and partnerships that put it laps ahead of other computer makers on the Infobahn. When Time Warner Cable's interactive-TV trial starts in Orlando this fall, for example, SGI video servers will dish up movies on demand to homes with set-top boxes built around SGI chips. And the next big push by Nintendo Co. will be a videogame machine being designed jointly with SGI. In June, SGI signed on AT&T to help sell SGI video servers and Nippon Telegraph & Telephone Corp. to use SGI servers to test interactive TV in Japan.

"Everybody in the world seems to want to do business with us," says SGI attorney William M. Kelly.

**BEIGE BUSTERS.** No wonder, given SGI's overriding goal: Make computing fun. That's why the techno-cognoscenti are flocking, too. In addition to flashy graphics, SGI machines sport a hip, sexy look, boldly colored in anything but standard-issue beige. Normally jaded scientists, product designers, and video engineers regard the machines—which carry such monikers as Iris, Indy, and Onyx—with awe. Buy a \$15,000 SGI machine, and you're part of a cult (page 64). "People are addicted to them," says Michael J. Zeitlin, an expert in computer visualization at Texaco Inc., which uses SGI workstations to penetrate seismic data.

SGI's sprawling Mountain View (Calif.) campus has become sort of a mecca. Celebrities such as artist Peter Max, director Milos Forman, and author Michael Crichton stop by to "grok" the latest technology. The offices look like a Soho gallery, what with exposed beams,

winding steel staircases, and unusual art—mostly sculpture, as befits a 3-D company. This is the promised land—at least to its 4,200 employees and the 2,500 hopefuls who apply for jobs each month. The unofficial company motto: "Serious fun."

And serious money. When SGI reports fiscal year results on July 20, analysts expect a \$141 million profit on a sales jump of at least 35%, to \$1.5 billion—the third straight year of accelerating growth (chart). Its 52% gross profit margin tops workstation rival Sun Microsystems Inc.'s 42% and is more than

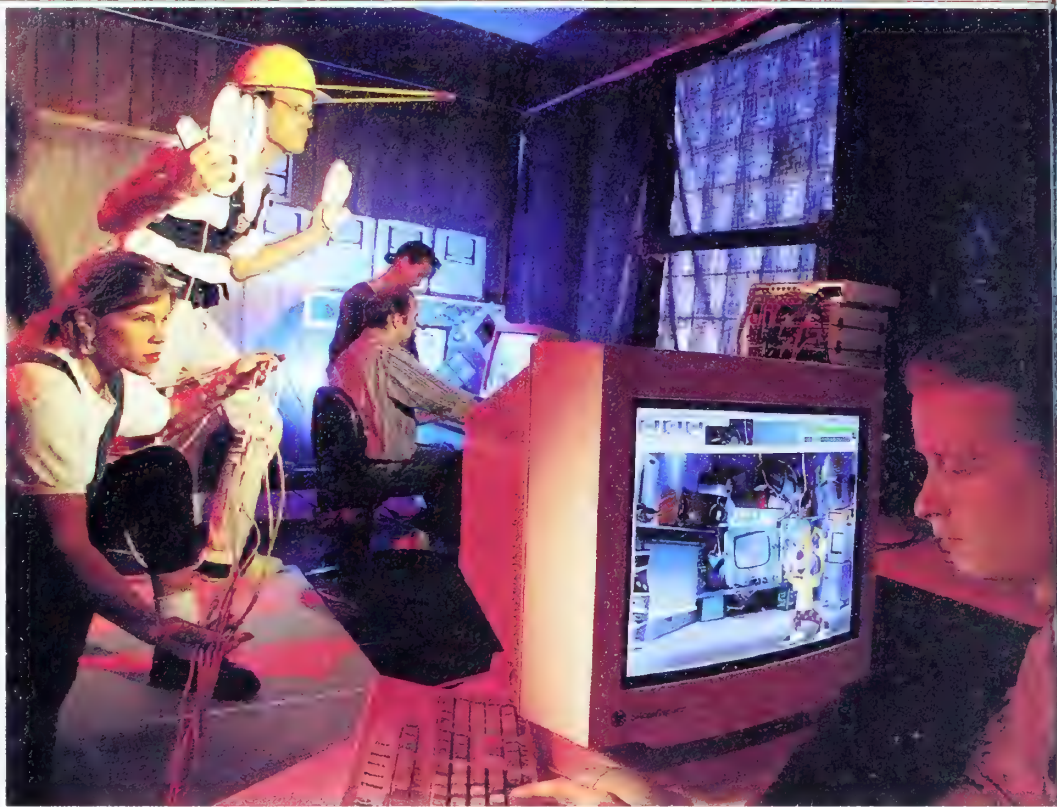
double the level of PC powerhouse Compaq Computer Corp. Even though it is largely confined to a 3-D niche, SGI passed IBM and Digital Equipment Corp. in 1993 to capture third place in the \$10.5 billion workstation market, according to International Data Corp. And with its shares trading at around 23, SGI's \$3.3 billion market value now tops those of DEC and Sun. Even President Clinton has noticed. When he and Vice President Al Gore unveiled their technology policy in Silicon Valley last year, their only corporate stop was SGI.

But can SGI keep the magic going?

In targeting everything from supercomputers to videogames, SGI may be taking on more than it can handle. What's more, few companies have managed to make a smooth transition from selling leading-edge technology to serving high-volume consumer markets.

## INFOBAHN RIDER

How do you navigate a zillion channels? To find out, Time Warner and SGI invited ordinary folk to debug interactive TV gear before a full-blown trial gets under way in Orlando







## LIGHTS, ACTION, SILICON

Hollywood is a small part of SGI's market so far. But cartoons like *Moxy* (far left) and movies such as *Jurassic Park* and *The Mask* serve as glamorous test beds for visual technology

that will stretch SGI's management and marketing skills as never before.

But SGI seems to love a challenge. In the world of computing, there are few tasks more complex than the creation of 3-D graphics. Until SGI, most workstations could create only crude 3-D "wireframe" images that resembled skeletons. The microprocessors, or silicon brains, in the workstations didn't have the power to draw complex graphics. No wonder. To create 3-D solids on a computer, you have to position thousands of different-shaped figures side by side, like the pieces of a puzzle. Then, the figures must be converted into visible images by assembling tens of thousands of picture elements, or pixels—the myriad dots of light on the screen. Finally, to make the images move fluidly, they must be redrawn 30 times a second.

Two key innovations, based on the ideas of founder James H. Clark, make SGI's graphics fly. While an assistant professor of computer science at Stanford University from 1979 to 1982, Clark and six students

came up with novel ways for building a cheap graphics computer. The result is the Geometry Engine, a collection of custom chips for speeding up model creation, and the Graphics Library, a set of 120 software rules that help developers create programs that turn models into realistic 3-D images.

By taking the graphics burden off the machine's central microprocessor, the Geometry Engine vastly speeds up the creation of 3-D models. The microproces-

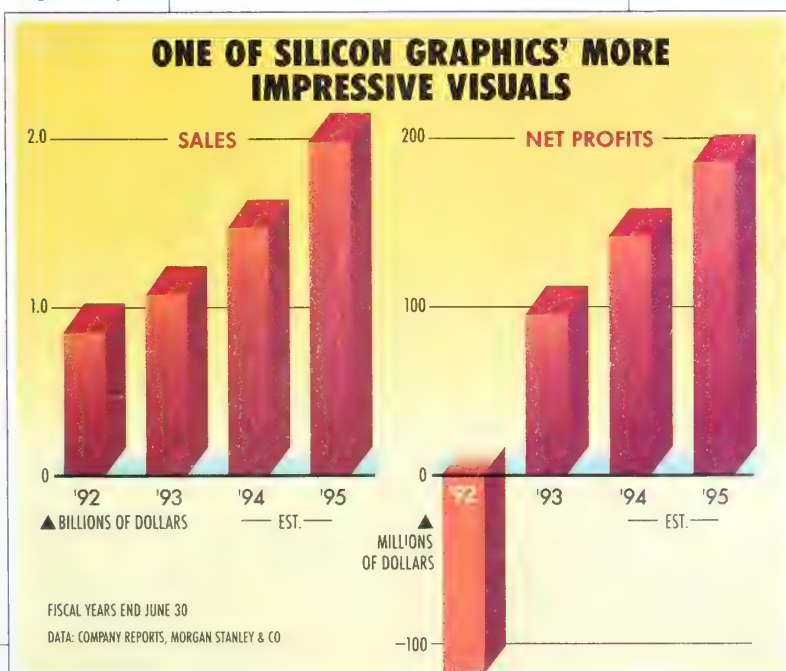
sor can then concentrate on turning those models into images on the screen. Other computer makers, such as Hewlett-Packard Co. and Sun, also have add-on graphics circuits, but customers say their speed and realism trails that of SGI. Says Carl Rosendahl, president of video production studio Pacific Data Images: "The others give interactive 3-D graphics a lot of lip service, but they haven't caught up."

**VIRTUAL ACTORS.** The lead in 3-D gives SGI a critical advantage. Basically, people find it easier to understand pictures rather than raw data. That's because half the human brain works like a graphics computer, rendering a 3-D world from 2-D images sent by the retina, says Richard Mark Friedhoff, author of *Visualization: The Second Computer Revolution*. So when a computer presents information visually, people can focus on the problem at hand. Says Friedhoff: "Visualization is the central driving economic force in the computer industry today."

It's no wonder customers quickly created hundreds of applications for SGI's 3-D graphics—many of them jobs never envisioned in 1984 when SGI sold its first workstation. At the University of Toronto, medical researchers use SGI computers to visualize the physics of cell surfaces to better understand diseases and immune responses. Most of the major commercial aircraft companies employ SGI machines to model airflow around a craft—without spending the time and money to construct physical models and test them in a wind tunnel. Ford Motor Co. uses hundreds of SGI machines to visualize future car styles and simulate crashes.

Then, there's film. In countless movies

from *The Abyss* to *The Mask*, a comedy due out July 29, SGI gear has turned special effects upside down. Where once each frame was painstakingly created using physical models, now software running on SGI equipment can create whole action sequences automatically—even virtual actors. While making *The Crow*, star Brandon Lee was killed before filming was completed. The movie was finished by using SGI equipment to digitally insert Lee into the new footage. The same techniques are making SGI a favorite on Madison Avenue, where agencies







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**A SILICON GRAPHICS TESTING AREA: THE IMAGES MAY BE COOL, BUT STAFFERS ARE COMPLAINING OPENLY ABOUT BURNOUT**

are using its gear to create dancing crackers, rubber phones, and other attention-grabbing graphics for TV commercials.

Hollywood provides more than just good PR. Says McCracken: "That market is stretching the rubber band the furthest for us in technology." In other words, says Thomas A. Williams, special-effects chief for Industrial Light & Magic, producer of the *Jurassic Park* special effects, "We drive them crazy." McCracken expects entertainment sales to double, to \$400 million, in fiscal 1995.

Movies are only the start of SGI's move into entertainment. The deal with Time Warner Cable, a division of Time Warner Entertainment Co., could take SGI equipment wherever the cable system stretches. In the Orlando test, up to 4,000 homes will get stripped-down SGI workstations to surf through such interactive services as movies on demand, home shopping, and videogames.

**BLOWN DEADLINE.** Nestled in a corner of SGI's headquarters is the "Time Warner Living Room"—complete with couch, easy chairs, coffee table, and TV. Since December, SGI has hosted couch potatoes in focus groups to see how they use SGI's on-screen program navigator. Unlike interfaces that require people to actively seek information, SGI's navigator

software works almost like a videogame. The laziest sofa spud can "fly" effortlessly into virtual theaters and malls.

The payoff could be millions of set-top boxes based on SGI technology. SGI is feverishly working to embed many of the graphics features of its \$5,000 Indy workstation into a \$500 set-top box for Time Warner that will be manufactured by Scientific-Atlanta Inc. It's no easy job. In addition to chucking components such as monitors and disk drives, SGI

must design in Scientific-Atlanta's technology and figure out how to shrink the whole thing into a few chips so that the boxes can be manufactured profitably. Already, SGI failed to meet a deadline for stripping down the Indy into a prototype for the set-top box, which helped push back the Orlando trial from April until at least October.

A success in set-top boxes would do more than open a new market. The added volume would help ensure the future of the microprocessors SGI uses. SGI wound up paying \$231 million for chipmaker MIPS Computer Systems Inc. in 1992 after Compaq pulled out of a consortium called Advanced Computing Environment that was aimed at making MIPS-based PCs an industry standard. It was critical for SGI to ensure the future supply of MIPS chips, but the purchase led to an \$118.4 million loss, its first since going public in 1986.

SGI's deals with videogame makers could also pump up the MIPS volume. Last August, Nintendo chose the chip for the forthcoming Ultra64 game machine, which will boast 3-D graphics. That deal could not only boost production of MIPS chips but also bring SGI \$300 million in royalties by 1998, estimates Prudential Securities Inc. This spring, Sony Corp. announced plans to



## MAGIC ON MAD AVE

What goes into the movies goes into advertising, since production teams use the same SGI gear for eye-popping visual effects in both fields



a version of the MIPS chip built by Logic Corp. to power its first videogame machine.

SGI technology is showing up on Main Street, too—in virtual-reality arcades where you can “ride” fighter jets, hot-aircraft, or prehistoric pteranodons. On July 1, Disney World’s Epcot Center unveiled a virtual reality setup that lets you ride a magic carpet through Agrabah, the city in *Aladdin*.

For all the new efforts, SGI hasn’t forgotten its traditional customers, which still account for most sales. Number-crunching scientists, for example, is pushing out ever more powerful computers such as the new Power Challenge servers, which perform as well as some multimillion-dollar supercomputers while costing \$120,000 to \$900,000. And on July 11, it will introduce Challenge servers starting at only \$100,000.

**SHORT CYCLES.** McCracken can take much of the credit for SGI’s success. After 16 years at HP, where he was a fast-track manager running several computer systems, he joined SGI in 1984 as president. The son of an Iowa corn farmer, he manages SGI’s finances conservatively, helping it to produce seven straight quarters of on-target or better results. Founder Mark, however, regarded him as too conservative and left in January to start his own software company, partly because he wanted to push more quickly into consumer markets than McCracken thought prudent. Clark’s new company is writing software to help navigate the Internet.

Paradoxically, McCracken’s cautious business philosophy allows him to make big bets in technology. He forbids managers from planning products more than two years ahead. “Nobody’s smart enough to plan long-term in this industry,” he says. Instead, SGI rams through product cycles as fast as possible—about 18 months—so the latest technology can be incorporated. If the new workstation design had started just three months earlier than planned, he says, it couldn’t have included a new digital camera.

Remarkably soft-spoken—with a voice like he’s telling a bedtime story,” says a manager—McCracken has replaced former Apple CEO John Sculley as Silicon Valley’s man in Washington. A lifelong Republican, he became a Clinton supporter because of the Democrat’s technology policies. Friends say McCracken is much less button-down than he looks. He has, for example, taken Silicon Val-

ley’s casual atmosphere far beyond Friday afternoon beer bashes. Two years ago, when two divisions were split into five, employees staged a wake, including a New Orleans band and cardboard coffins. Another SGI institution: an annual lip-sync competition that takes *The Gong Show* to new lows.

SGI puts its own aggressive twist on Valley ways: While other companies hold aerobics programs, SGI employees take karate and form bungee-jumping groups.

## A GROWING CIRCLE OF FRIENDS

*A network of alliances is extending Silicon Graphics’ business*

- 1988** **CONTROL DATA** Buys 20% stake in SGI, since sold.
- IBM** Licenses SGI graphics technology for use in workstations.
- 1991** **COMPAQ** Buys 13% stake in SGI for \$135 million.
- MICROSOFT** Chooses SGI 3-D software for future operating systems.
- ACE (ADVANCED COMPUTING ENVIRONMENT)** Consortium formed by SGI, Compaq and PC makers to push MIPS’ chip design as a desktop standard.
- 1992** **MIPS** SGI buys this chip designer for \$231 million. Compaq sells its SGI stake, and abandons MIPS-based design; ACE founders.
- 1993** **LUCAS ARTS’ INDUSTRIAL LIGHT & MAGIC** Collaborates on advanced special-effects system with SGI.
- TIME WARNER CABLE, SCIENTIFIC-ATLANTA** SGI designing video servers, set-top box, and software for interactive TV trial to start this fall.
- NINTENDO** Picks SGI to design video game player.
- 1994** **SONY** Picks LSI Logic’s MIPS chip for new videogame player.
- NIPPON TELEGRAPH & TELEPHONE** Chooses SGI video servers for interactive TV trials in Japan.
- AT&T** Forms joint company with SGI to develop and sell software and video servers.

DATA: SILICON GRAPHICS INC.

That’s not because they’re young. In fact, the average age is 36—old enough by Valley standards to cause McCracken’s 25-year-old son to hesitate before taking a job there. The company barely controls chaos—offices may move three times a year—but people seem to thrive on it: The 10% annual turnover rate is about a third of the Valley average.

It’s not going to be so easy keeping that culture charging forward. As SGI reaches \$1.5 billion in sales—and as up to

1,500 new people join next fiscal year—some former employees say political cliques are developing, and current staffers openly complain of burnout. Such problems may be starting to infect SGI’s product development and customer relations. One former engineer says product cycles on workstations have stretched from as short as a year in 1988 to more than two years on the next generation. McCracken says cycles are only a little longer, and that’s because products are more complex.

A bigger problem could be arrogance—the disease that nipped Apple. Mark Malmberg, president of Xaos Inc., a San Francisco video-production studio, says SGI people told him he would be foolish to consider using competitive machines from Kubota Pacific Computer Inc. or HP. And Lawrence J. Ellison, CEO of software giant Oracle Corp., says an SGI marketing executive berated him for not producing a piece of software, exclaiming, “You must be stupid!”

McCracken acknowledges that some employees are “prima donnas.” But he relies on a cadre of a dozen top engineers, including five remaining co-founders, to keep SGI on track by searching out problems—technological and cultural. And most customers are still enthusiastic. Brad deGraf, director of digital media at video producer Colossal Pictures Inc., thinks SGI is the one alternative to Microsoft Corp. that can set a new agenda for the industry. “Microsoft is the Evil Empire,” he says. “No one would ever say that about SGI.”

SGI faces more daunting challenges than cultural turmoil. For one thing, rivals keep trying—so far unsuccessfully—to take away SGI’s lead in graphics. In May, HP introduced 3-D workstations that match SGI’s performance in mechanical design applications. And on July 12, Sun will again take aim at SGI with new models. Even PC makers may get in on the act: In April, 3DLabs Inc. in San Jose announced a \$150 graphics accelerator chip that it claims will bring SGI-level graphics to PCs.

SGI isn’t ignoring PCs completely. Microsoft plans to offer SGI’s Graphics Library software in Daytona, the next version of Windows NT. But McCracken says it isn’t worth trying to bring SGI’s graphics directly to mainstream PCs, which he views as tired, hopelessly limited, and not very profitable.

Eventually, though, competition could force SGI to drop prices faster—or face getting left out of the mainstream.



Warns Robert G. Pearson, director of Sun's advanced systems and a former marketing manager for SGI: "Apple had hot products, but then the volume standard [IBM-style PCs] eventually won."

Even if SGI doesn't broaden its appeal, it still has plenty of room to grow. But McCracken is determined to push beyond his niche markets. That's why he keeps prowling the Info Highway: He figures that if he can get others to back SGI's approach, he'll have it made.

Some rivals wonder if SGI's Lamborghini technology is too exotic for the Info Highway. Says James D. Olson, general manager for HP's Video Communications Div.: "It's like trying to sell school buses into the minivan market."

For now, however, there's little downside to the consumer push. SGI is not manufacturing any consumer devices, and both Nintendo and Time Warner are paying for the R&D on their projects. Even if the Time Warner deal doesn't pan out, SGI will have pushed its chip designs, networking, and user interface in directions that could make its workstations far more appealing.

The bigger risk may be keeping the company on track. SGI has little experience in consumer markets or in managing a high-volume business. Already, concedes Chief Operating Officer Thomas A. Jermoluk, "the company is bigger than anything any of us has ever run."

At this point, the company seems up

to the task. Last fall, for instance, SGI proved it could still move quickly to avoid a major market blunder. When it realized a new version of its operating system was causing some programs to run like snails, Silicon Graphics stopped shipping machines for six weeks and mobilized hundreds of engineers to fix the glitches. Thanks to the quick action, it managed to post a record quarter.

That ability to turn on a dime may prove SGI's most potent weapon in years to come. Now, if it just doesn't go to Hollywood, SGI may well show the world the future of computing—in living 3D color, of course.

By Robert D. Hof in Mountain View, Calif., with Neil Gross in Tokyo

## WHO NEEDS A LAMBORGHINI IF YOU'VE GOT AN SGI?

For years, pop artist Peter Max has used computers to create his famous graphics. But he was still not prepared for what he saw the first time he sat down at a Silicon Graphics Inc. workstation. A friend showed him how to create realistic 3-D images without picking up a brush. "I immediately went crazy," says Max. Now, he will use SGI gear to bring his art into the multimedia age—complete with sound and video. "With this equipment, my whole life will change," he declares.

SGI machines do that to people—and not just because of what's on the screen. There's a mystique about them that transcends bits and bytes—and frustrates rivals. "SGI has done a great job of creating a cult," grouses Robert G. Pearson, a former SGI marketing manager who now directs advanced systems at Sun Microsystems Inc.

**PEBBLY FINISH.** Just as Apple Computer Inc. did with its Macintosh computers, SGI cultivates an image of its machines as the coolest around. Indeed, among people who can afford to shell out the bucks—prices start at \$5,000 and can easily run up to \$40,000 for a workstation—they've replaced Macs as the hippest box in cyberspace. "It's like getting a Lamborghini," exclaims rock musician and multimedia entrepreneur Todd Rundgren, a cult member.

Yes, SGI is a company with attitude. Its computers come in electric purple, crimson, and teal. And the newer ones even feel different. They have a pebbly finish that reinforces SGI's 3-D feel because it has depth to it. Even company literature has attitude. One slick brochure shows SGI's Indigo machine as a bookend for tomes on Matisse and *The Algorithmic Beauty of Plants*, CDs by Sarah Vaughan and the Talking

Machine. "It's a real experience"—an elaborate video demonstration of the Indy's features. Among other intricately detailed, phantasmagoric images, a juggler tosses balls into the air, and the balls lead through a colonnade. You click on the balls to enter "rooms" running demos of each machine function. A cute bonus: Nestled in Indy's packing box are three real juggling balls.

But high-profile customers give the cult its prestige—another Apple tactic that SGI has improved on. When Apple co-founder Steven P. Jobs called Max about the first Mac, the artist recalls being disappointed that it was a monochrome screen. The SGI, by contrast, lets him feel as if "I have my hands in the paint." In addition to Max, SGI cultivates artists, musicians, and film directors, never missing a chance to plug its Hollywood connections—even though movieland is still a fraction of overall sales.

Not all of the Hollywood crowd drinks the SGI Kool-Aid. Thomas A. Williams, chief of digital special-effects at LucasArts Entertainment Co.'s Industrial Light & Magic, hates the flashy colors of the machines. Still, Williams loves what they can do. SGI just has to make sure he keeps liking what's inside. After all, even in Hollywood, the computer business isn't all image.

By Robert D. Hof in Mountain View

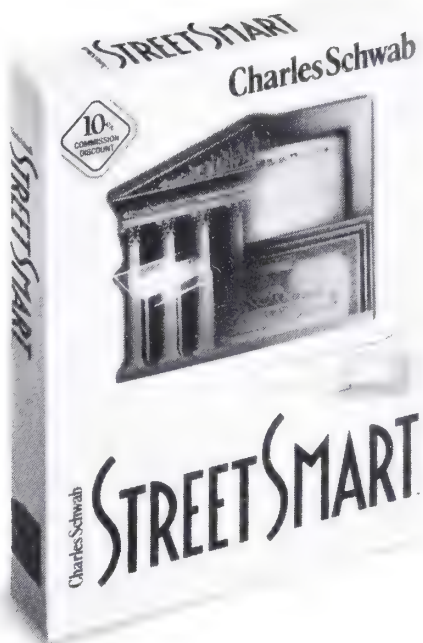


CONVERT PETER MAX: MOST COMPANIES HAVE CUSTOMERS—SGI HAS A CULT

Heads, and a video of *The Maltese Falcon*. For its latest machine, the \$5,000 Indy workstation, SGI went all-out. Its "earthquake" shape—as if one pizza box were stacked atop another, but slightly crooked—was designed not only to evoke a three-dimensional feel but to draw people to touch it, says Vice-President Thomas C. Furlong.

Most ambitious, SGI hired San Francisco film studio Colossal Pictures Inc. to create the ultimate "Out of Box Ex-

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# TAKE OUR MONEY, PLEASE

Watch out—banks are falling over themselves to lend again

**E**astman Kodak Co. could have been expected to continue using Bankers Trust Co. as the lead bank on its line of credit when it refinanced the loan this past spring. After all, Bankers had arranged Kodak's old line in 1992. But when Kodak asked for bids on the \$2.5 billion refinancing, the response from banks was surprisingly aggressive.

In the end, Kodak chose Bank of America and Chemical to spearhead the financing. Kodak is now paying an annual rate to have the funds available of just 12.5 basis points over the London interbank offered rate (LIBOR) for its credit line, down from 25 basis points over LIBOR on its old line. That's a small change, but on a \$2.5 billion loan, it is a savings of nearly \$3.1 million a year, according to Cary G. Schmiedel, director of corporate financing. Chemical, Bank of America, and Bankers Trust decline to comment on the specifics of the financing. The fierceness of the bidding for Kodak's business underscores a dramatic change in the market for loans: The banks are back—big time.

**FREE TOASTERS?** Credit is spewing forth from bank coffers, and spreads on floating-rate bank loans are narrowing. Large banks' corporate lending is presently up more than 6% over last year (chart), and all indications are that the growth will continue. Now, things are getting even looser: The covenants on those loans are easing, and the terms on many banks are eagerly financing acquisitions—a far more volatile business than financing capital investments—and some deals are even getting done on the basis of borrowers' anticipated financial strength, rather than on their actual conditions when the loan is made. Such arrangements were last seen in the heyday of

aggressive corporate lending in the late 1980s.

Bankers say their improved numbers and the heavy emphasis on investment-grade financings are making the loan market today a place of relatively low risk. But for many observers, the current conditions in the corporate loan market are all too familiar—and worrisome. They say that problems are scarce today, and far fewer high-risk deals are getting financed now than in the late 1980s. But the eagerness of the lenders, and the speed at which banks have bid lower rates on new loans, suggest that even easier credit could soon follow, with predictable results. "They're making loans at razor-thin spreads and setting the stage for making loans later on that will not be good," says Edward E. Furash, chairman of consulting firm Furash & Co. "They're stretching again."

There are several reasons for the banks' renewed appetite for lending. To begin with, they have a lot more to lend these days than they did at the beginning of the decade. The fall in short-term interest rates that began in late 1990 enabled banks to buy securities whose prices were rising and whose yields were far higher than the cost of funding the investments, thereby earning record profits. Now, with capital stores replenished, banks are looking for new places to deploy their cash.

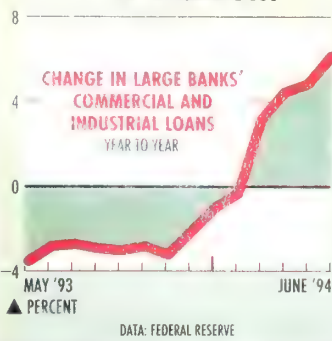
The strengthened capital at the banks comes at a time when bonds and other investments are far less alluring. The rise in interest rates during the first half of the year hit hard into the investment portfolios of banks, and continued uncertainty in

the market is making the banks wary of further investment. Higher short-term rates are also boosting the cost of financing bond investments. As a result, banks that had been snapping up fixed income securities are today looking for other investment options.

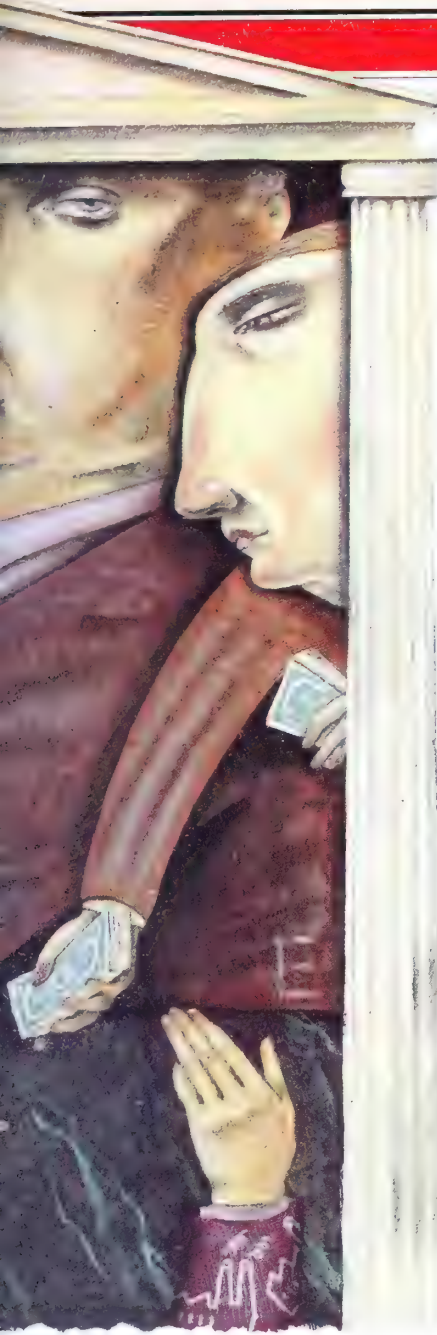
New rivals add to the competitiveness in the market for corporate loans. CS First Boston and Merrill Lynch & Co. have hired several corporate-lending specialists from money-center banks this year. Superregional banks are also jumping in. Thomas W. Bunn, managing director of NationsBanc Capital Management Corp. in Charlotte, N.C., says his bank was second in number of syndicated deals in 1993.

All this means that bankers are

## BANK LENDING IS RISING...







rambling over each other to do business. They are even pushing to lend to companies whose ratings are below investment grade.

R. Bram Smith, managing director and head of loan syndications, sales, and trading at Bankers Trust, says noninvestment-grade deals are getting done with more leverage and less coverage, and "there's tension to put in less equity." In addition, Smith says, investment-grade companies that were getting three- and five-year financing a couple of years ago can now easily tap the market for seven-year debt and pay almost the same rates and fees.

Banks are increasingly quick to cede protections on loans in a bid to win market share. Companies that used to be

required to pledge that 100% of their excess cash flow would be applied to their bank debt are now able to get financing with a 75% requirement or less. Other companies are obtaining financing without material-adverse-change clauses—clauses that allow lenders to shut off credit if a borrower's condition worsens.

As for banks' profit margins on corporate loans, they are shrinking daily. Companies are refinancing loans inside of a year, obtaining lower spreads and longer-term loans. According to Loan Pricing Corp., publisher of a newsletter on the corporate-loan market, Dow Chemical, General Mills, Sprint, and AT&T Capital, among others, have refinanced loans since mid-1993. In many cases, companies are getting new loans with no associated fees. Says one corporate-lending specialist: "We often joke that we're not too far away here from the point where we pay companies to lend them money."

**THE BIG SCORE.** Acquisition financing is expanding at a particularly rapid rate. Says Thomas H. Hodges, senior vice-president at First Chicago Corp.: "The most active market [for loans] is for clients expanding by acquisition rather than by building new capacity." Thrifty PayLess was a major beneficiary of the eagerness of banks to lend money for deals. Thrifty, then Thrifty Holdings Inc., wanted a bank loan to help finance its acquisition of PayLess Drugs from Kmart Corp. Thrifty scaled back its original plans to borrow \$850 million. Ultimately, though, Thrifty was able to obtain \$600 million in bank financing, even though the company, a turnaround with new management, had just begun to generate earnings and positive cash

flow after years of losses.

Many of the bank loans getting completed today are refinancings taking place even before loans mature. Burlington Industries Inc. enlisted Chemical Bank in May to help it obtain \$905 million in credit that would cut the cost of its bank debt to 62.5 basis points over LIBOR, down from 150 basis points over LIBOR on its August, 1993, borrowing—the company's third refinancing in as

many years. The maturities extend as far as 2001, and the company is no longer subject to strict loan-amortization requirements. Says Chief Financial Officer John D. Englar: "I think we're a pretty good barometer of what's happening in the bank-loan market."

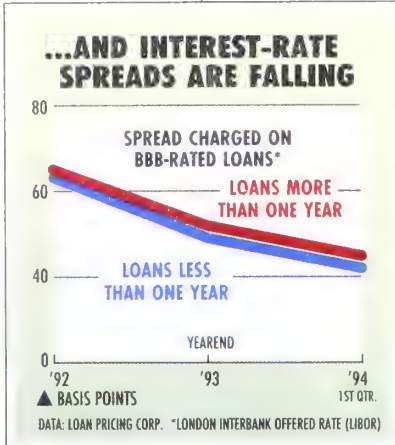
Bankers argue that they need to expand their market share in order to get the juicy deals. Despite the minuscule profit margins on most big loans today, the bankers are dreaming of the magic call from a big company looking for a huge, high-margin loan. "The transaction is going to come where you make a lot of money, so if you maintain a presence, you stand a better chance of getting that deal," says Chad A. Leat, managing director and head of loan syndication at Chase Manhattan Bank. One current high-margin deal: bank financing for Conesco Inc.'s acquisition of Kemper Financial Cos., led by Citibank.

Smaller deals are often profitable, and on the surface, they seem less risky. Little deals, however, don't get the market scrutiny that the big syndicated loans do, so banks can offer outrageously easy terms and lend to highly questionable credit risks in smaller amounts. "The market acts as a very good governor" on large, widely syndicated loans, says James B. Lee, senior managing director in charge of structured finance at Chemical Bank. "The deals I worry about more are much smaller, where the company is smaller and its access to the capital markets is more limited."

No one believes credit-quality problems are anywhere near dangerous levels. For one thing, the economy is on much sounder footing now than it was in the late 1980s, when lending was last this aggressive. And many companies have reduced their own debt burdens, making themselves better credit risks. The banks themselves are also healthier.

Bankers, however, have been confident before, even in the years right before the emerging-market debt crisis and the peak of leveraged buyouts in the booming 1980s—periods when, in hindsight, caution was warranted. Given the bankers' track record, their current confidence could be the first sign of a problem in the making.

*By Kelley Holland  
in New York*





**MERRILL'S RENCK DOESN'T  
FLINCH FROM PUTTING 25%  
OF ASSETS IN ONE STOCK**

# A TECH FUND WITH DERRING-DO

Jim Renck's strategy nets eye-popping gains

**Y**ou might say James K. Renck has a green thumb. Not just because he has successfully transplanted close to 450 pine and maple trees onto the farmland surrounding his house in New Hope, Pa. But also because he has made investors a ton of the green stuff.

In the past six months, Renck's \$525 million Merrill Lynch Technology Fund—up from \$70 million two years ago—returned close to 22%. That's in stark contrast to the average tech fund, which dipped 0.87% when Renck's fund is included in the average and fell 3% when it isn't, according to Morningstar Inc. Such success isn't a flash in the pan: In 1993, Renck's fund returned 21%. In 1992, it racked up a 46% return.

The 37-year-old fund manager gets such eye-popping results by taking an unconventional approach. Many sector-fund managers feel obliged to stay close to fully invested and don't hold big cash positions. But Renck has no qualms about having large cash holdings. At one point in 1993, he had 92% of assets in cash. "I like to have cash, because people panic," he says, noting that it's more a desire to have purchasing power than to time the market. "I'm more concerned about product cycles than economic cycles," he says.

Renck made one request when he was given the fund to manage: Change its

status to nondiversified. That would remove the requirements to have 75% of assets diversified and not to hold more than 5% of assets in one stock. Renck has put as much as 25% of assets into one stock—Micron Technology Inc. He has held as few as five stocks and doesn't like to hold more than 25. That leads to volatility: "With concentrated positions and huge swings in and out of the market, this is not a mild fund," says Morningstar analyst Jennifer Newport.

Like Renck's trees, the fund is a transplant. Until mid-1992, it was part of Sci/Tech Holdings Inc., a Merrill-sponsored fund Renck says was "a huge marketing success but didn't have great performance"—being too broadly diversified and involving too many fund managers. Renck keeps his operation small, using one research analyst.

## RENCK'S TOP PICKS

|                          | Stock Price      | Price-earnings ratio |
|--------------------------|------------------|----------------------|
| MICRON TECHNOLOGY        | 34 $\frac{1}{2}$ | 11.0                 |
| CREATIVE TECHNOLOGY LTD. | 18               | 15.5                 |
| ACCLAIM ENTERTAINMENT    | 15 $\frac{1}{4}$ | 17.0                 |
| APPLIED MATERIALS        | 42 $\frac{1}{2}$ | 23.0                 |
| SEGA ENTERPRISES LTD.**  | 79 $\frac{1}{2}$ | 35.0                 |

\*As of July 5

\*\*Traded on Tokyo exchange

DATA: MERRILL LYNCH & CO., NOMURA RESEARCH INSTITUTE

A willingness to sell stocks for short-term gains also makes Renck's fund stand out in a crowd. "You only make money when you sell," he states. "We want a positive return at the end of the year." He says that can keep investors from being burned: "If you manage a fully invested portfolio with a top-down approach, you're up big one quarter and down big another quarter. We work at trying to avoid that." But taxes take a big bite out of short-term capital gains, shrinking the fund's 20.9% return in 1993 to 12.4% for investors in the 31% tax bracket. Investors in higher tax brackets may want to use the fund in a tax-sheltered account, such as a Keogh.

**"PRINTING MONEY."** Renck is now reinvesting cash, which is down to about 20% of assets. "We see strong and improving demand for a lot of companies," he says. "There are company-specific problems that people say are indicative of slowing demand. My research says that is not the case." His favorite pick is still Micron Technology. He says the company, the low-cost producer of dynamic random-access memory (DRAM) chips, is "printing money," has price increases booked through 1994's third quarter, and could be the leader in the next generation of its product.

Renck doesn't always wind up on the winning side of a bet. Take Iwerks Entertainment Inc., a high-tech movie and entertainment company. It is one of the rare instances when the fund bought an initial public offering. After nearly doubling from its offering price of 18, the stock has fallen to 6%. "It's a good example of a company with a lot of promise that did not execute its plan," says Renck. "We blew it."

For the manager of such a high-octane fund, Renck has a remarkably calm demeanor. But frustration starts to show when he talks about short-sellers bad-mouthing some of his holdings, such as Creative Technology Ltd., the maker of Sound Blaster audio cards for personal computers and one of his top 10 holdings. "I use these opportunities to add to positions," he says, massaging his temples. After accumulating the stock at prices ranging from about 10 to 14, Renck watched it drop to 10% and then climb to 18. "We have substantial dollar profits," he says.

With two years of performance to brag about, Merrill will soon launch the fund's first advertising campaign. Renck, who doesn't get paid on the amount of assets in the fund, nevertheless says he wants more purchasing power for the fund. Given his record, investors will likely grant his wish.

By Suzanne Woolley in Plainsboro, N.J.



# THE SHORTS ARE STANDING TALL AGAIN

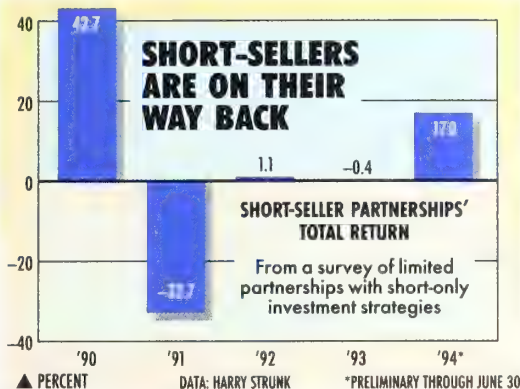
With interest-rate troubles pummeling stock prices, the bad-news bears are out of hibernation

Short-sellers are the pariahs of the investment world. Unpopular at times of market setbacks, when they tend to be the only ones making money, they suffer when the markets climb. In the bull market of the past three years, shorts have been miserable performers. But 1994 is shaping up as the best year for short-selling since 1980—and short-sellers are thumbing their noses at their enemies.

With interest-rate troubles pummeling stock prices, including the over-the-counter stocks that are the meat and potatoes of shorts, Wall Street's bears are charging. Through June 30, short-selling limited partnerships saw their portfolios climb 17%, according to preliminary figures compiled by Harry Strunk, a Palm Beach (Fla.) investment consultant who tracks the performance of short-sellers. "Every time you see the NASDAQ breaking down, you can bet that the shorts are doing well," says Strunk. And the NASDAQ has been off this year, down 9.6% vs. 4.3% for Standard & Poor's 500-stock index.

**MAKE EYES.** It's more than just the declining market that has unleashed the shorts, who sell borrowed stock in the hope of replacing it at a lower price. There also has been a dramatic falloff in "short-busting"—buying into stocks because they have high short-interest rates, driving up the price of stocks or otherwise forcing shorts to replace the shares they have borrowed. With the market decline taking the pizzazz out of short-busting, "the short-squeezes have stopped entirely," asserts one major short-seller.

Not too surprisingly, the stock groups that have been most resistant to the short-sellers have been crummy to everybody else. Casino stocks, such as President John D. & Co. Inc. and Casino Inc., for example, have been popular along the short-selling fraternity. Ditto for specialty-restaurant and computer-networking stocks, says Michael Murphy, a short-seller who expects the lat-



ter group to stage a recovery. Biotech stocks and pharmaceuticals also have been swell shorts, as have the short-sellers' friend—the overpriced, overhyped stock. "The way we've always made money on the short side is through stocks that are either frauds or their prospects are inflated," says Ben Kopin, who runs Lynx Partners in Chicago.

Short-selling's renewed popularity is evident in the short-interest statistics released annually by the stock exchanges and NASDAQ, the stock-trading system for the over-the-counter market. OTC short interest has more than doubled over the past three years, growing at a far greater pace than the increase in the number of OTC issues. But it's almost impossible to gauge how much of this comes from short-only investment managers. Short-seller Murphy, who edits the newsletter *Overpriced Stock Service*, notes that much of the short-selling

that's reflected in these figures is by hedge funds, which often devote a portion of their assets to short-selling.

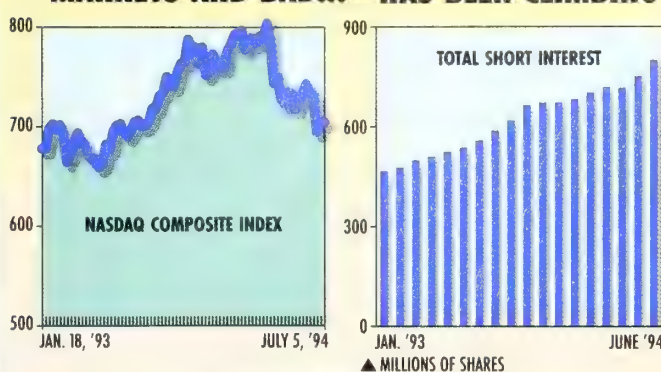
Short-sellers point to yet another nontraditional factor that has boosted short-selling: the growth of custom derivatives products. Some are designed by brokerage houses for customers desiring to bet on a decline in stock groups. Since it's not possible for an institution to buy a put option on, say, HMO stocks, the brokerages design one themselves. Then, to hedge their market exposure, the brokerages sell short.

**BURNED.** Still, it's too early to expect a return to the salad days of short-selling, when pension funds and other institutions were pouring money into short-only limited partnerships. The granddads of them all, the Feshbach brothers of Palo Alto, Calif., now run a hedge fund that goes long and short, instead of their traditional short-only strategy. The biggest short nowadays is Jim Chanos, whose Kynikos short-selling partnership fell some 40% last year—only to rebound by a like amount this year. (Chanos, in keeping with the publicity-shy character of the short-selling community, declined comment on his performance.)

Institutions are unlikely to come flocking back to shorts even if 1994 turns out to be a good year for the bears. They were too badly burned by their venture into short-selling in the recent bull escapade. The behemoths may come back, but only if the market miasma continues through the decade. Murphy, for one, is catering to the institutional prejudice against shorting in his newest enterprise—an S&P 500 index fund adjusted by removing its 30 most overvalued stocks. "Institutions want to take advantage of negative information, but they still shy away from short-selling," says Murphy. And given the big boys' atrocious record at market timing, maybe it's time to give short-selling another look.

By Gary Weiss in New York

## THROUGH GOOD ...OTC SHORT INTEREST MARKETS AND BAD... HAS BEEN CLIMBING





BY GENE G. MARCIAL

## BOSTON CHICKEN MAY REALLY BE LAYING AN EGG

**B**oston Chicken was one hell of an IPO: The stock zoomed from its offering price of 20 a share to 51 in one day, Nov. 8, 1993. Since then, the stock has cooled somewhat, to 37. Does that make it a compelling bargain now?

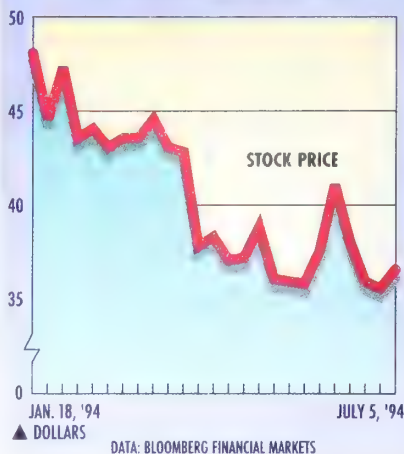
"Forget it," says a veteran restaurant-industry analyst, who has scrutinized what he calls Boston Chicken's "aggressive type of accounting" and "unimpressive earnings outlook." He disagrees with the bullish opinions of analysts at Merrill Lynch and Alex. Brown, which underwrote the IPO.

This analyst, who's at a major Wall Street house, says the stock "is terribly overvalued." He figures the company, whose 330 quick-service restaurants (mostly franchised outlets) specialize in rotisserie chicken, can achieve only half of the 13% store-level margins that the bulls are projecting. And sales, he adds, which are initially buoyed by new-restaurant openings, aren't rising as fast as expected. The company's goal is to have 525 restaurants by the end of 1994.

A New York hedge-fund manager, who has been shorting the stock, notes that Boston Chicken lags behind such chains as IHOP (International House of Pancakes), Au Bon Pain, and Bob Evans Farms in sales per square foot. These companies trade at price-earnings ratios ranging from 17 to 33. Boston Chicken's p-e of 51 is based on 1994 earnings estimates of 70¢ a share. **WELL SCRAMBLED.** The New York money manager contends the 70¢ number is "highly inflated" because it includes royalties and fees from franchisees that "are essentially subsidiaries." The company's contract with franchisees, most of whose capital needs are financed up to 75% by Boston Chicken, stipulates they can convert their loans into equity after two years and become 66%-owned Boston Chicken subsidiaries.

To this pro, the royalties and fees are really intercompany fund transfers—but Boston Chicken counts them as revenues. If these royalties and fees were removed from revenues, he says, Boston Chicken would show a 1994 loss. He contends that, because of high food costs and expenses, on a per-unit

## BOSTON CHICKEN —OFF ITS PERCH?



basis most of the Boston Chicken franchisees have yet to show any profits.

Mark Stephens, Boston Chicken's chief financial officer, disagrees. He says the restaurants are profitable, and he rejects the notion that the royalty and fee payments are "intercompany fund transfers." The payments, he explains, "come from the franchisees' operating profits and not from the financing we provided. We are no different from other franchisors." Steven Rockwell of Alex. Brown figures the company will earn \$1.15 in 1995.

## SOROS EXAMINES UNIVERSAL HEALTH

**W**hy is George Soros interested in Universal Health Services—an \$800 million company that owns and operates acute-care and ambulatory-surgery facilities and psychiatric hospitals?

A group controlled by the legendary Soros has upped its stake in Universal Health from 5.6% to 6.5% and has in formed management it intends to pursue ways to maximize shareholder value. The Soros group, says one money manager, expects to meet with Universal's top brass before long.

"That all spells 'takeover' as far as I'm concerned," says this money pro. He speculates that either Humana, the giant health-care and hospital company, or Columbia/HCA Healthcare will propose a merger or an outright buyout to Universal. Both Humana and Columbia have grown through acquisitions. Columbia recently announced plans to merge with Medical Care America, an

operator of outpatient surgery centers.

Mike Kicera, managing partner at MKR Capital Management in Rochester, N.Y., which focuses on takeover and special-situation stocks, says Universal is one of the most undervalued hospital companies around. Whereas its peers in the industry are selling at 23 to 26 times earnings, notes Kicera, Universal, trading on the Big Board at 25, sells at a p-e of 9. He thinks the stock is worth 42.

Investment adviser Charles LaLoggia is also convinced Universal is a takeover target. "Soros wants to ride the takeover wave that's starting to engulf the industry," says LaLoggia.

## PRITZKER BETS BIGGER ON DVI

**I**t's always reassuring for investors to see big shareholders fatten their stakes in a company they own stock in. That's what is alluring about DVI Health Services, a leading provider of financing for users and suppliers of sophisticated medical equipment. The Pritzker group, led by Chicago financier Jay Pritzker, recently raised its stake in DVI from 20% to 30%.

What's so special about DVI? One is that the company has close links with four of the six major suppliers of medical-imaging equipment, DVI's biggest source of business. The four manufacturers—Japan's Toshiba and Hitachi, the Netherlands' Philips, and Britain's Picker—depend on DVI to finance their customers, which include hospitals and outpatient medical centers. The two remaining makers are General Electric and Siemens, both of which provide financing to customers.

DVI has found "a niche business in the financing field, which has been very sound and profitable," says investment manager Ralph Wanger, of Wanger Asset Management, which owns a 5% stake. "DVI is the kind of stock we look for—a small-cap, growth-oriented company with stable management." The stock, trading on the Big Board at 9, is underpriced, he says.

Although the rise in interest rates has thrown many financing companies off course, says Wanger, DVI's business has continued to grow. New financing is up in the most recent quarter to about \$60 million—more than for all of 1993. That's partly because of the acquisition of two companies in 1993. Wanger sees earnings rising to 70¢ a share in 1995, up from 33¢ this year.



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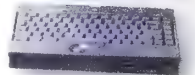
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## LOOK WHO'S TALKING SETTLEMENT

Now, companies see class actions as ways to limit the damage

**R**onald L. Motley has been like an airborne toxin to the asbestos industry. In as many as 100 trials, the 50-year-old plaintiff attorney has made a career out of vilifying asbestos manufacturers. Once, Motley donned a doctor's white coat and toy stethoscope in the courtroom to belittle the testimony of an industry expert witness. Another time, the flamboyant South Carolinian lugged a box covered with a giant skull and crossbones into a courtroom to illustrate the shortcomings of one manufacturer's warning labels. And though he was admonished by a judge for that prank, Motley's ingenious trial tactics, devised on behalf of some 75,000 asbes-

tos victims over the past 20 years, have made him one of the most feared and respected attorneys in the country.

So why are so many of the plaintiff lawyers and legal scholars who once admired Motley suddenly scorning him? They say it's because he has joined a growing movement among companies to use class actions to cut off liability from seemingly endless litigation. The recent settlements involve such minefields of liability as asbestos and silicone breast implants. The problem is, Motley's critics charge, the new class action settlements may all but eliminate the rights of plaintiffs to sue manufacturers in the future. "The courts have sold [future] plaintiffs

down the river," declares Columbia University law professor John C. Coffey, who has been involved in the asbestos litigation.

Motley, who helped negotiate a \$1 billion settlement last year with 20 of the largest asbestos manufacturers, says the settlement is actually better for plaintiffs than the court system. He points out that plaintiffs will no longer have to wait years to collect their awards, companies get to cap their liability forever, and judges can clear their crowded dockets. "It's time to stop spending \$2 in transaction costs for every \$1 that goes to victims," says Motley. "It's a sin to reinvent the wheel thousands of times a year."

**"THE EXTRA MILE."** Yet the settlement Motley helped craft with such asbestos makers as Pfizer Inc. and GAF Corp. (now called ISP) and the \$4.2 billion in-plant deal hammered out this April has raised questions about whether victims' rights are being sacrificed for an efficient end to troublesome litigation. Unlike most class-action deals, which cover the plaintiffs who file the suits, these settlements cover future plaintiffs. Critics say benefits for individuals who aren't yet sick seem pale in comparison with those for present plaintiffs who are represented zealously by advocates such as Motley.

In the asbestos deal, manufacturers insisted that future claimants demonstrate more serious medical conditions than current plaintiffs are required to before they can qualify for compensation. Critics say Motley agreed to those terms in return for a generous \$215 million settlement for his 14,000 present clients. What's more, Motley and his Charleston (S.C.) firm, Ness, Motley Loadholt, Richardson & Pool, will split an estimated \$75 million with their co-counsel as a result of the \$215 million deal. Motley defends the payout but says it is ultimately up to "the judge to decide if anything is wrong."

As part of the asbestos accord, defendants are required to notify potential plaintiffs about the settlement and the options through national advertising and letter campaigns. Anybody who does not want to be part of the deal can opt out by submitting a form to the court. "We walked

### REVERSAL OF FORTUNE

*Many companies that once vigorously fought class-action settlements are now welcoming them as a means of ending their litigation nightmares. Here's why:*

#### **FUTURE VICTIMS ARE COVERED**

Companies increasingly demand inclusion of both current and future plaintiffs as a way to cap their overall liability.

**PAYMENT SCHEDULES** Standardized payouts eliminate the prospect of wildly disparate jury verdicts, thus enabling companies to plan better for their future liability.

**SELECTIVE COMPENSATION** Certain victims, who otherwise would be entitled to payments, will no longer be able to collect damages for their injuries. For example, asbestos victims diagnosed with less serious conditions are excluded from compensation in a new agreement with defendants.

**TRUNCATED LITIGATION** Suits and settlements are filed on the same day, eliminating the need for lengthy legal maneuvering.

DATA: BUSINESS WEEK



**MOTLEY: "IT'S TIME TO STOP SPENDING \$2 IN TRANSACTION COSTS FOR EVERY \$1 THAT GOES TO VICTIMS"**



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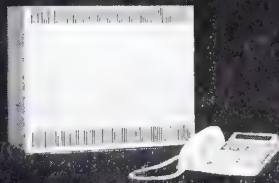
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the extra mile to give notice on a broader scale than anyone has done in the past," says Lawrence Fitzpatrick, president of the Philadelphia-based Center for Claims Resolution, an industry group formed to manage asbestos litigation.

The problem is, there's little way of knowing who future claimants will be. Victims of asbestos-related ailments often don't develop diseases for years and in some cases aren't even aware that they have been exposed. That makes it difficult for them to know whether to forgo the deals being cut now. So far, some 260,000 out of potentially millions of plaintiffs have opted out of the settlement. Those who didn't may now have a hard time getting out and will have to abide by the terms of the \$1 billion deal. And unlike Motley's current clients, victims who suffer less serious symptoms such as spots on the lungs won't qualify for compensation.

**FRUSTRATED FOREIGNERS.** The breast-implant settlement, which was spearheaded by Dow Corning Corp. and Baxter Corp., has also come under attack. Under the agreement's terms, future victims may find that the fund set up to pay them will be depleted by the time they get sick. Foreign women, who bought half of all U.S.-made implants, receive only about 3% of the compensation set up for women who become ill. Their lawyers say that's because they were excluded from talks the companies held for 18 months with plaintiffs' attorneys Stanley M. Chesley and Ralph I. Knowles. By the time attorneys for the foreign women were allowed in, "the cake was baked," gripes Manhattan attorney Sybil Shainwald, who represents many foreign women.

Knowles and Chesley say the deal is fair, noting that women could opt out of the settlement. But to some foreign women, that's little consolation. By law, they then could only sue manufacturers in their own countries, which traditionally reward plaintiffs less money than do courts in the U.S.

Whether these increasingly common—and controversial—settlements will stand up in court remains to be seen. Both the silicone-breast-implant accord and the asbestos settlement will be reviewed later this summer by district court judges. But many legal experts believe that ultimately it will take a decision by the Supreme Court to balance the rights of individuals with the need for efficient settlements.

Motley isn't waiting around to see what happens. He's already hot on the trail of the next class-action frontier: tobacco. With the cigarette industry's avowed policy never to settle, Motley's toughest battle may be yet to come.

By Catherine Yang in Washington

# Science & Technology

RESEARCH

## ROGER SCHANK WANTS YOUR CHILD'S MIND

His team of multimedia pioneers aims to change the way kids learn

**F**or such a smart guy, Roger C. Schank could use a few lessons in tact. During a two-hour conversation in his sprawling, 41st-floor home on Chicago's Gold Coast, the artificial-intelligence guru turned educator brands most "edutainment" software as "crap," blasts student-testing methods as "measuring all the wrong things," and chides school administrators for "taking 30 years to realize that overhead projectors could move from the bowling alley to the classroom."

Given such repartee, it would be easy to dismiss Schank, director of Northwestern University's Institute for the Learning Sciences (ILS) and former chief of Yale University's Artificial Intelligence Project, as an academic gadfly. Mistake. Schank and his team of 150 scientists and graduate students at ILS are pursuing a serious mission: using computers and multimedia software to revamp education and business training.

**STORY THEORY.** In Schank's view, America's schools badly need reform because they fail to make knowledge relevant to students. He blames large class sizes and curriculums that make students memorize the same facts in lockstep, which turns kids off learning and doesn't teach them how to apply knowledge productively. The best way to learn, he argues, is to get information just when you need it. And that means individual instruction.

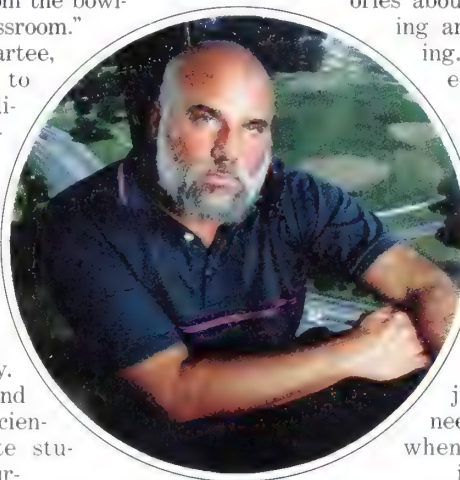
Cheaper computers and information networks are the tools of Schank's would-be revolution. ILS, with an annual budget of \$8.5 million primarily from the Pentagon's Advanced Research Proj-

ects Agency and Andersen Consulting, does cutting-edge research on how the human mind processes information, then applies the insights to develop multimedia software that can teach students individually. "Schank and the ILS are pioneers on a wild frontier" of education, says John R. B. Clement, an educational computing expert at the National Science Foundation.

At the core of Schank's work are theories about story-based teaching and goal-based learning. Schank, like many educators, is convinced that stories are the most effective teaching tool. And based on his own theories of memory, Schank also believes that the most complex learning occurs when new information is presented just as a student needs to use it. That's when the brain indexes information most quickly.

To create an electronic, just-in-time teacher, Schank has developed software tools that interact with video. The ILS ASK systems, as they are called, let students choose among predetermined questions about a topic or even type in their own queries. Special "case-retrieval" software gives students access to a video database of experts who relay "stories" about the subject. During such a session, indexing software continually changes the available answers and follow-up questions based on the previous question or response, or the student's shifting interests.

In this way, the ILS program Broadcast News is currently being used as a tool to teach political science at a Evanston (Ill.) high school. A team of



### SOUND BITES FROM CHAIRMAN SCHANK

*Erudite and opinionated, the artificial-intelligence guru turned educational-software expert is never at a loss for blunt words*



students produces a TV news story on 10 constitutional issues, such as that used by the Rodney King beating, which was tried as a federal civil rights case. As they write a script and edit from a library of video clips and interviews with experts, students learn about political science. Use the word "altered" when describing the accused police officers in the script, for instance, and the computer hits you with a text and video discussion of the presumption of innocence in American jurisprudence. All the attack "racially motivated," and the software opens a dialogue about race relations in the U.S.

**EDUCATIONAL ARE**  
Once an initial program is developed, similar ones can be "built" upon it—at a much lower cost. ILS spent \$120,000 to produce for Chicago's Museum of Science & Industry an exhibit that allows museum-goers to play the role of a genetic counselor to patients concerned about sickle-cell anemia. But future projects based on the same computer program as the Chicago exhibit will cost 90% less.

**BACK ON DETAILS.** The same tools are valuable for employee training. "One of the problems that business has is that new employees come in with a school mind-set," says GE Capital Corp. Senior Vice-President James A. Colica. "They don't understand things, they just repeat them by rote." Based on Schank's work, he has created a multimedia simulation course to train new credit managers in loan underwriting. The software teaches "perspective and judgment skills, just like on-the-job training," Colica adds.

Schank's current fascination with learning is a far cry from the Brooklyn childhood where he spent more time throwing footballs—he would have liked to play quarterback for the New York Giants—than he spent hitting the books. A bright but not particularly motivated kid, he graduated 322nd in his high school class of 670. Schank's early years as an undergraduate math major at Carnegie Institute of Technology weren't distinguished either. "I probably shouldn't have graduated," he recalls, "since I did precious little—other than play ball and play fraternity."

Luckily for the 48-year-old Schank, his growing interest in the relationship between mathematics and language provided the discipline to earn master's

and doctoral degrees in linguistics at the University of Texas. From there it was a short jump into the nascent artificial-intelligence field, which was trying to develop computers that could simulate human reasoning and communication. In the late 1960s, Schank landed a computer-science teaching job at Stanford University. Then, as the director of Yale's AI Lab from 1974 to 1989, Schank hit the big time, attracting venture capital to start two AI software companies and stirring a heated debate over his views about how human memory is organized.

Colleagues concede that Schank's ideas can sometimes get lost in the furor caused by how he expresses his opinions. "Roger is a genius who rubs off on people—sometimes that's good, sometimes not," says David J. Urban, president of Compu-Teach Inc., the educational-software company based in Redmond, Wash., Schank founded in 1982. Agrees Stephen C. Mott, CEO of Cognitive Systems Inc., an AI company Schank founded: "Roger has a way of telling people they're full of it at the same time he's asking them to write a \$1 million check."

Although he is brilliant at conceptualizing ideas, Schank can be weak on details, colleagues say. In 1987, while Schank was chairman, Cognitive Systems narrowly averted financial ruin after its then-chief financial officer made more than \$1 million in unauthorized withdrawals and stock-index trades, according to Securities & Exchange Commission documents. Schank resigned from part-time management soon afterward. Concedes one admirer: "Roger is interested in the conceptualization and the plan, but once something gets under way, he isn't there anymore."

ILS, created five years ago, may be an exception. Andersen wanted to bolster Northwestern's computer-science department, so it offered \$15 million to start the institute. Today, ILS employs an interdisciplinary staff of teaching faculty from Northwestern plus graphic artists, video-production technicians, and graduate students. It houses 18 "fellows," who are employees of its corporate sponsors: Andersen, Ameritech, and British utility North West Water. After two years, fellows earn master's degrees and take Schank's

thinking back to their companies.

Why the corporate tie-in? "That's where the money is," Schank says bluntly. Since learning concepts are the same whether the student is an adult or a

## ON NINTENDO

**"There's a lot to be learned from Nintendo. The problem is that what it teaches—basically hand-eye coordination—isn't worth learning."**

child, companies provide invaluable testing labs—without the politics involved in using new educational materials in the schools. "All [that companies] are interested in is if it works and will it save money," says Schank.

**SMARTEST MOVE.** That's a major reason Andersen, which spends \$200 million annually on training for its 30,000

employees, wants to extend its support of ILS for five more years. Schank's group developed a 36-hour multimedia PC version to replace Andersen's 80-hour business-practices course, previously taken by every new consultant at one of two training centers. In one segment, for instance, students play the role of a human resources manager for a manufacturing plant. They are faced with decisions about salaries, training, and promotion for a cast of employees whose performance histories can be investigated at the touch of a button. Anderson's top consultants provide plenty of advice in the form of video "war stories" culled from taped interviews. By no longer sending employees to its centers for training, Anderson saves up to \$10 million a year, says Partner John D. Smith.

Corporate training may not be the only use for such tools.

Baby Bell Ameritech Corp. has spent more than \$1.5 million to sponsor ILS research in hopes that it will lead to interactive products for use on the Information Superhighway. "Roger is working on reshaping the way people interact with information, and that fits our vision of wanting to manage information for customers," says Ameritech Vice-President James A. Goetz.

Yet Schank's top goal remains better education for kids. He hopes to have ILS software ready for schools within three years, but some software developers doubt that Schank, a perfectionist, will produce software cheaply enough to make it commercially viable. Says one: "They've got decent products, but decent isn't what Schank is about. It may take someone else to bring these to market."

Whoever commercializes ILS's ideas, the technology is overdue. Artificial-intelligence experts "have promised things that probably can't be built, like the all-knowing machines that you see in *Star Trek*," Schank says. "But maybe we could build a machine that's good as a teacher." That would be his smartest move yet.

By James E. Ellis in Chicago

## ON ORDERING DINNER

**"Most people enjoy eating a meal with me because they'll have a better meal than if they ordered themselves."**

## ON THE INFO SUPERHIGHWAY

**"Most of it's just hype...like the idea that experts will be waiting on-line to answer questions. Who has the time? Most of the time my answer is 'read my book.'"**



# Developments to Watch

EDITED BY RUTH COXETER

## HOPE FOR OIL SPILLS IS A THING WITH FEATHERS



Oil-soaked seabirds wouldn't be surprised to learn that feathers could be used to mop up marine oil spills. Researchers at the Regional Technical College at Tralee, County Kerry, Ireland, have shown that feathers pick up oil better than other natural substances do—and are cheap to boot. Michael Murphy, a lecturer in analytical science

and chemistry at the college, says feathers absorb 14 times their own weight in oil. Peat, the next best natural material, absorbs less than twice its weight.

The group has developed two-inch-thick "quilts" up to 20 feet long made from feathers encased in nylon mesh. These are laid on a spill then hauled aboard a boat and run through rollers, which forces the oil out for later disposal or recycling. The quilts can be used up to three times—albeit with reduced absorbency after each use—before final disposal by burning or in a landfill. And the feathers are free—from a local chicken factory that would otherwise dump them. Smaller "pillows" could mop up spills in garages, factories, and labs.

## SON OF THE SUPER COLLIDER HEADS TO EUROPE

Now that the Superconducting Super Collider is history, the physics community is anticipating the go-ahead for a junior version of the SSC at CERN, the big European physics lab that straddles the Franco-Swiss border. The \$1.8 billion Large Hadron Collider (LHC), which will take eight years to build, would be the world's most powerful atom smasher—and make CERN a magnet for physicists from around the world.

The 19 countries that fund CERN were expected to approve the LHC on June 24, but there was a last-minute hitch. Germany and Britain are pushing Switzerland and France to pick up a bigger share of the costs to reflect the benefits that will flow to their local economies. Still, there's little doubt that the project will move ahead soon. Germany and Britain back the LHC in principle. And Washington seems ready to fork over a few hundred million dollars to guarantee access by U.S. physicists—and avert a brain drain. Late July now seems the likely time for uncorking the champagne.

## PRODUCING CARBON-CARBON FAST-FAST

Carbon-carbon composites are the stuff of desperation. They're among the toughest, most heat-resistant materials around, but they're such a pain to produce that they're used only when nothing else will do. Such as for the exhaust nozzles on NASA rockets. Or for jetliner brake linings, where lightweight, carbon-reinforced carbon composite not only saves pounds but outlasts steel linings 2 to 1.

Four months ago, W. J. "Jack" Lackey, a senior researcher at Georgia Tech Research Institute, had an inspiration. He hung a so-called preform—a mat with multiple clothlike layers woven from carbon fibers—in an oven and heated it to 1,200. Next, he forced methane gas through the preform. When the methane molecules came into contact with the hot preform, they broke down and deposited their carbon atoms on the fibers. After eight hours, carbon atoms filled all the voids and turned the mat into a solid sheet. The usual method—repeatedly soaking a mat with a resin and baking off the noncarbon atoms—produces toxic gases and takes weeks. Lackey says his process is 30 times as fast. That could make carbon-carbon parts affordable for car engines.

## THIS 'POPCORN' CAN STOP ACID RAIN BEFORE IT STARTS

To keep coal-fired power plants from belching chemicals that cause acid rain, emissions are bubbled through vats of limestone sludge before they even reach the smokestack. Although effective in removing sulfur dioxide, the vats don't catch nitrogen oxide, another acid-rain villain. And the method requires costly equipment that is frequently clogged by sludge and corroded by acid by-products.

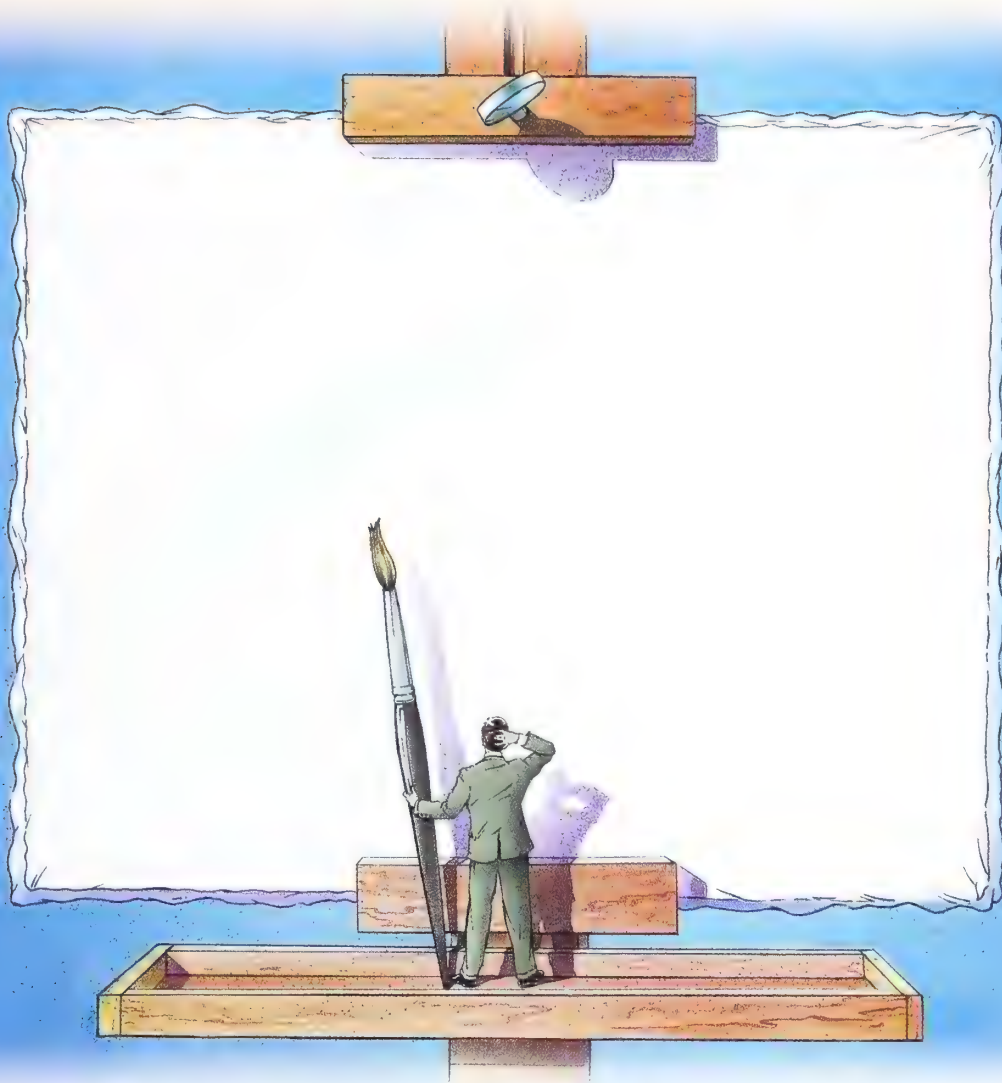
Engineers at Northeastern University may have a cheaper way to capture acid-rain culprits: spraying a patented combination of calcium carbonates and magnesium carbonates into the combustion chamber of the plant. When particles hit the right temperature, they "pop" like popcorn. Popping increases the surface area of the particles, which maximizes their ability to absorb sulfur dioxide. Another benefit: When the "popcorn" pops, it releases acetone, which reacts with nitrogen oxide and turns it into harmless nitrogen. A harmless chalky residue, gypsum, is left behind. The acetone used to produce the carbonates is costly. But inventors Yiannis Levendis and Donald Wise are working on extracting acetone from sewage and other organic waste. That could reduce the price from \$500 a ton to less than \$100.

## A RADAR DEVICE FOR DUPING SPEED DEMONS

For years, speedy drivers have used radar detectors to spot police before the police spot them. Now, speeders have another thing to worry about. A small electronics company in Indianapolis called Electronic Rainbow Inc. is selling a \$50 device called "The Zapper" that sets off radar detectors in cars even if there are no police around.



The device, which looks and works like a garage-door opener, sends out a 10.5 gigahertz radio signal, the same type transmitted by police radar guns. So if a truck driver tailgates you, you could set off his radar detector and get him to back off. Or you could slow down a detector-equipped car whizzing past. The device went on sale earlier this year. Ron Ross, president of the company, says 20% are sold to off-duty police who want to instill fear in the hearts of reckless drivers.



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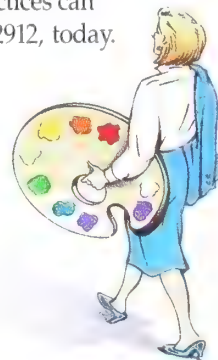
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Commentary/by Carl Desens

## HOW TO PUT RACING BACK IN THE WINNER'S CIRCLE

**W**hen Tabasco Cat zipped to victory in the Belmont Stakes on June 11, the colt not only earned a \$392,280 purse but also staked a plausible claim to the title Horse of the Year. Today, the Cat's performance is just a memory. And with the Triple Crown races over, Thoroughbred racing is pretty much gone from the public eye until next May's Kentucky Derby.

In today's sports world of rookies in Bentleys, star athlete pitchmen, and multimillion-dollar TV contracts, horse racing is an also-ran. According to Daily Racing Form Inc. and Equibase Co. figures, attendance at U.S. tracks plodded from 51,851,587 in 1982 to 52,338,395 in 1992, a pitiful 0.9% increase. In that same period, the overall handle—the money pushed through the betting windows of tracks and off-track-betting outlets—declined by 8% in 1992 dollars, to \$9.4 billion. Mean-time, the number of races run per year increased by 10%, to an estimated 70,253, while the number of horses foaled shrank by 11%, to 35,200.

**HANDICAPPED.** You don't have to be adept at deciphering the *Daily Racing Form*, which turns 100 this fall, to figure out those numbers add up to a sport gone lame. More races and fewer horses mean short fields and tired nags. That keeps horseplayers at home—or betting less. And racing's 17% to 18% average takeout—money subtracted from the handle for purses, taxes, and operating expenses—doesn't stack up favorably against the 5% or so (as low as 0.6% for craps) extracted from the wagered dollar by the growing numbers of casinos. While the Clinton Administration's proposed across-the-board federal tax on gambling is dead (page 82), racing always puts dollar signs in the eyes of hungry legislators facing budget shortfalls.

What's to be done? The Thoroughbred Racing Assns., an umbrella group for 49 major tracks in the U.S., this spring named J. Brian McGrath to serve as the first commissioner of racing and bring the sport of kings into

the 21st century. McGrath is a seasoned entertainment executive who has put in stints at Viacom, Columbia Pictures, Coca-Cola, and Switzerland-based ISL Marketing, the company that arranges big-time sponsorships of the Olympic Games and soccer's World Cup. The commish is charged with pulling the hundreds of disparate entities in racing together to create a national identity for the sport. McGrath, it is almost universally conceded, has a lot of hay to bale.

The first innovation of his tenure was the introduction on Memorial Day

the closed-circuit-TV Best 7 show at its tracks. But New York's Off-Track Betting Corp. is not yet on board.

This little dustup in New York—McGrath calls it an "issue"—will be settled shortly, the commissioner believes. He thinks the Best 7 is "off to a good start" and will be the cornerstone of additional improvements in the sport on a national level. For the future, McGrath hopes for an increase in big league sponsorship of racing, with more major stakes races underwritten by the likes of Anheuser-Busch Cos. more advertising at tracks and in

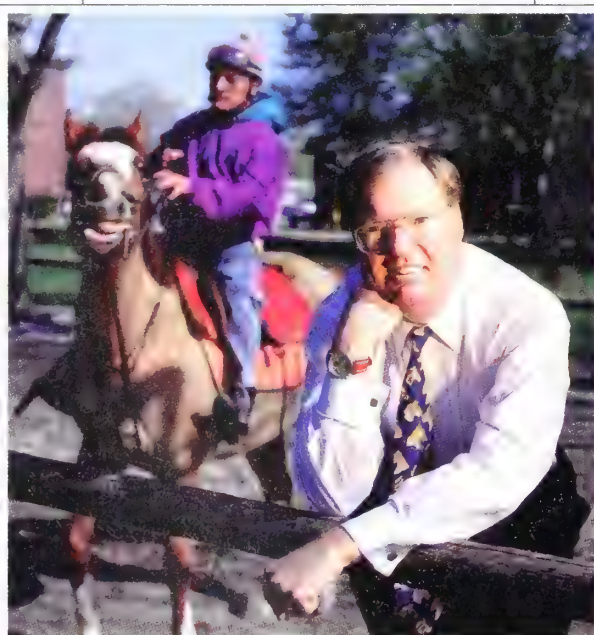
standardized track-program-cum-magazine; more on-site tie-ins with other forms of gambling like the poker palace now in operation at Hollywood Park in California; more product displays and promotions; more event-marketing; more licensing of trademarks; more TV exposure; more, more, more.

**SPEED FIGURES.** A lot of what the commish proposes is long overdue. But for this sport, a little less could actually be a lot more. Says Peter D. Swatling, a 20-year veteran horseplayer from Fly Creek, N.Y.: "Tracks should emphasize the horses. They can't compete with the glitz and instant gratification of the casinos." The commish should campaign to prevent the taxman from adding more weight to the saddlecloths. He should also put an end to winter racing in the north—which is

beset by too few horses, dangerous conditions, and low turnout—and get tracks to card 7 or 8 races a day, not 10, 11, and 12. Too many horses are breaking down under the strain.

Most important, McGrath should persuade track managements to provide more of racing at its best: pampered, blooded colts and fillies in park-like surroundings, such as Saratoga, Del Mar, and Monmouth Park. Exciting matchups. Color and speed and kaleidoscopic crowds. In short, a beautiful day at the races. That's what might bring more folks out. Not more billboards.

*Desens anchors sports coverage for BUSINESS WEEK.*



**RACING'S COMMISH: McGRATH HAS A LOT OF HAY TO BALE**

of the National Best 7 bet, a weekly 50¢ chance to pick the winners of seven feature races across the country. But the Best 7 handle was just \$371,075 on Memorial Day. On June 11, it was a modest \$226,072. On July 4, it rose to \$306,593, still a pittance.

Best 7, judged a nonstarter by cynical railbirds, is hobbled by a dearth of both ticket-sale locations and publicity—and by a bit of the internecine squabbling that McGrath was hired to mediate. California's big tracks are taking action on the Best 7, but the horsemen there stalled the inclusion of California races for the first few weeks. The New York Racing Assn. is letting its races be included and is televising



## LABOR FLEXES ITS MUSCLES —AS A STOCKHOLDER

Union-mounted proxy fights have quadrupled since 1992

**W**hen angry investors fired off letters to embattled Philip Morris Cos. recently, the sign- included usual shareholder activists such as the California and New York public employees' pension plans. Two others stood out: the Teamsters and the United Food & Commercial Workers (UFCW). The unions, whose

union funds together about 0.5% of Philip Morris, have been leading in the effort to get the company to split its food and tobacco units. And last year, Teamsters proposal to split out management's pension pill garnered a 50% vote.

Philip Morris isn't the only company facing organized labor in its new role as stockholder. Since 1992, the number of union-mounted proxy battles has quadrupled. The newfound activism has set off a furor, as targeted companies denounce unions for pursuing hidden bargaining agendas as well as high stock values. The Securities & Exchange Commission is being dragged in, too, since it must decide whether proxy resolutions merit being sent out for a vote. "This is the sleepy

over of employee stock ownership finally waking up," says Joseph R. Blasi, a Rutgers University management professor.

**POISON.** Labor's boardroom muscle stems largely from simplified SEC proxy rules that took effect in 1993. Unions have jumped at the opportunity. At least 13 sponsored 70 proxy battles this year, vs. 30 fights in 1993 and 16 in 1992, according to the Investor Responsibility Research Center (IRRC), a research group based in Washington.

Labor can pose a double-barreled threat to management when it represents both employees and stockholders. Often, unions mount proxy battles when bargaining isn't an issue. For instance, only 500 Teamster members work at Kmart Corp. But of the \$46 billion in assets held by the union's 150 pension funds, \$35 million is in Kmart shares.



TEAMSTER PRESIDENT CAREY (CENTER): A CONCERNED SHAREHOLDER?

### BATTLES IN THE BOARDROOM

Less exclusionary Securities & Exchange Commission rules on proxy initiatives have triggered union-sponsored actions. Some examples:

| Company                         | Initiative                                                                                                         |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <b>KMART</b>                    | Clothing Workers and Teamsters joined dissidents to defeat company stock offering                                  |
| <b>PHILIP MORRIS</b>            | Teamsters and Food Workers helped to form shareholder group that wants company to split its food and tobacco units |
| <b>CONSOLIDATED FREIGHTWAYS</b> | Five Teamsters resolutions in 1993 and 1994, including one calling for staggered board, won some 40% of vote       |

DATA: BUSINESS WEEK

And the union was unhappy with the company's stock performance. So the Teamsters joined other investors in early June to veto management's plan to raise as much as \$900 million by issuing new stock in its specialty-store units.

Unions sometimes have other motives, however. At Philip Morris, the Teamsters' primary concern is its pension funds' \$180 million investment. But the union also feels that its 5,000 food-work- er members there would have more se-

cure jobs if the potential tobacco business liabilities weren't hanging over their heads. "Our starting point is shareholder issues, not employee ones," says Teamsters President Ron Carey. "But it makes it more attractive if there's a union issue there, too."

It is these employee concerns that arouse management ire. For instance, the Teamsters initiated proxy fights over corporate governance issues such as poison pills at the three largest trucking companies this year—in the middle of national freight talks. "The Teamsters are trying to organize parts of our company," fumes James R. Allen, a vice-president at Consolidated Freightways Inc., where the union has sponsored a total of five proxy resolutions since 1993—none involving labor issues. "They do this having failed in the proper labor relations arena."

**RISKY BUSINESS.** Such complaints have put the SEC in the hot seat. In January, it refused to allow two officials of Dow Jones & Co.'s in-house union to sponsor a resolution to limit the CEO's pay, arguing that the union was simply using the proxy process to advance its bargaining goals. However, such decisions put the commission in the risky business of divining union motives. Agency officials concede, for instance, that they would have allowed the same proposal at Dow Jones if it hadn't come from a union. And the agency allowed the UFCW to propose that Food Lion Inc. disclose its executives' profit-sharing accounts—even as the union mounts an aggressive campaign against Food Lion labor law violations. "There have been a series of

contradictory decisions on unions' motivation," says Pat McGurn, a corporate-governance expert at the IRRC.

Shareholders have won only 11 of the 430 proxy fights they have mounted this year, the IRRC says. Unions accounted for 7 of those, probably since they chose companies where they were most likely to win, says McGurn. In short, business is likely to hear more from labor shareholders about how to run a company.

By Aaron Bernstein in New York





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## CLINTON VS. THE SIN LOBBY: ALL BARK

Taxing booze, butts, and blackjack is much easier said than done

**W**hen word leaked in March that the White House was mulling a new gambling tax to help pay for welfare reform, the gaming industry went on full alert. Nevada Governor Bob Miller, an early supporter of Bill Clinton's Presidential bid, flew to Washington with a stack of industry statistics projecting that a gaming tax would shutter casinos and throw 30,000 people out of work. Meanwhile, up in Congress, owners of Thoroughbred racehorses and dog-racing tracks from New York to Texas warned members of equally dire consequences.

Faster than you can say "snake eyes," the President took the tax off the table. "He told me he was impressed by the support we had gathered," Miller says.

**SMOKESCREEN.** Stunned would be more like it. Clinton rode into town carrying a satchel of earnest social programs that ranged from fixing welfare to curing an ailing health system. With the public in no mood to accept broad-based tax increases, he reckoned he'd get the cash from taxes opposed by the Sin Lobby—those industries that turn clean-livers into smokers, drinkers, and gamblers.

He has since discovered that the odds were against him. Marshaling huge war chests, sophisticated grassroots operations, and some of the capital's savvy-

est hired guns, the alcohol, gambling, and tobacco industries have separately fended off most of Clinton's assaults.

No question, the White House underestimated the industries' might. Rather than winning the moral high ground, the White House was caught off guard when the Sin Lobby redefined the offensive as an assault on average people. "It's a cultural thing," says David K. Rehr, lobbyist for the National Beer Wholesalers' Assn. "The affluent folks in Washington say, 'Let's tax the few pleasures of the working man.'"

Even cigarette makers are scoring big points by arguing that the little guy—from laborers to small-business owners—would bear the brunt of the tax onslaught. On June 30, the House Ways & Means Committee scaled back White House plans to raise tobacco taxes by 75¢ a pack to finance health reform. The panel's vote instead for a 45¢ hike was partly due to a tobacco-industry strategy to let groups with a better public image lead the charge.

Last March, some 10,000 tobacco workers stormed Washington, arguing that U.S. manufacturers would move plants abroad if the federal tax soared. Trucking unions joined in, taking claims of job losses to Representative John D. Dingell (D-Mich.), chairman of the House

Energy & Commerce Committee. Meanwhile, convenience-store owners—small-business operators that Clinton touts as the engine of economic growth—fanned out on Capitol Hill in June, warning that tax hikes would encourage bootlegging. "We have representatives in every state," says Frank Colaccino, chief executive of Dairy Mart Convenience Stores Inc. in Enfield, Conn. "We should be heard."

At the same time, the tobacco industry, reeling from an antismoking movement and a regulatory assault, has been playing the inside game. It has aimed its firepower at lawmakers who represent areas where growers and manufacturers sustain the local economy. The industry told lawmakers in closed-door meetings that defectors would lose support if they abandoned hometown companies.

With Clinton's health plan imperiled, the bloc of 20 or so tobacco-state Democrats are key. Without them, argues Representative Rick Boucher (D-Va.), "you don't have enough to prevail."

**SIX-PAC?** The Administration has learned that the alcohol lobby is no fun to tangle with, either. Last year, the White House considered raising alcohol taxes to pay for Clinton's "investment" agenda and health reform. But pressure from the lobby made him back off.

The brewing industry figured big in his about-face. The Beer Institute, headed by Raymond J. McGrath, a former House Ways & Means member, House Majority Leader Richard Gephardt (D-Mo.), who represents the St. Louis district that includes the Anheuser-Busch Cos., took up the cudgel against new taxes.

With beer distributors—and drinkers—in every congressional district, the industry



began a grassroots campaign pitting the Sixpack against the elite. Wholesalers and brewers argued that half of beer drinkers earned less than \$35,000 a year and that Republicans could use the issue to appeal to Reagan Democrats. Clinton's political advisers warned the President to retreat, too.

The beer lobby's ace in the hole may have been Anheuser-Busch Chairman August A. Busch III, who has developed a close relationship with Clinton. A White House Administration official says Busch was "weighed in heavily" against high-alcohol taxes. Still, his appearance with other chief executives at the White House in February, 1993, to support the president's economic plan coincided with Clinton's announcement that an alcohol tax was out. The next day, Clinton flew to St. Louis to push his plan.

**FOR ONE.** Unaccustomed to being a federal target, gaming interests took another tack when the White House tacked a 4% tax on gross receipts of gambling operations: hiring big outside firms. The Nevada Resort Assn. called on former GOP Senator Paul Laxalt and Lloyd N. Hand, a onetime aide to Lyndon B. Johnson, to organize a blitz. Casino mogul Donald Trump even made a trip to see Dan Rostenkowski (D-Ill.), then Ways & Means chairman.

Hoping to broaden the campaign beyond the gambling industry, the lobbyists quickly patched together a coalition of 30 industry groups representing everything from racetracks to airlines to hotels. The travel industry argued that a gaming tax would depress tourism. It also feared the Administration would tax other "frivolous" pursuits later on. "Business interests were saying, 'We can't let them pick people off one by one because we could be next,'" says Wayne E. Mehl, a lobbyist for Nevada resorts.

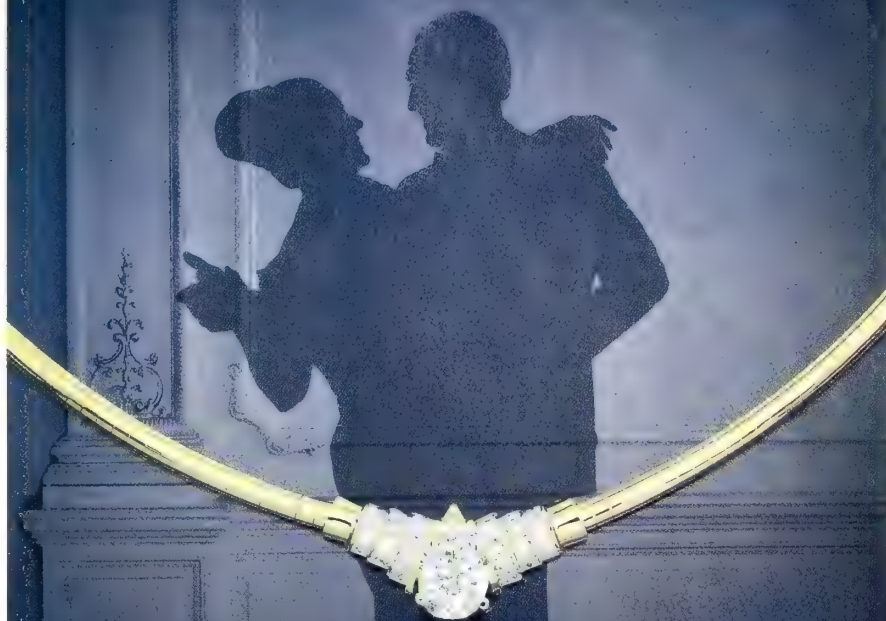
But pure politics was certainly the most compelling reason for the White House flip-flop. Nevada Governor Miller and Senator Richard H. Bryan, both Democrats, reminded Chief of Staff Thomas F. McLarty III in March that they were up for reelection. How would they look if a Democratic President taxed the state's leading industry? Clinton also was dissuaded by a letter from 31 governors warning that a tax hike would torpedo their budgets.

For now, only tobacco remains on the chopping line. But with a cash-starved Administration always on the prowl for deep pockets, the triumphant Sin Lobby isn't taking anything for granted. It's this siege mentality that helps account for Clinton Administration reformers' newfound recognition that in Washington, the wages of sin often prevail over high-minded intentions.

By Susan B. Garland in Washington

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# MAYBE THEY SHOULD JUST CALL IT SUMNER INC.

Paramount, culture and all, is being subsumed by victorious Viacom

On the morning Barry Diller confirmed his merger negotiations with CBS Inc., Viacom Inc. President Frank J. Biondi Jr. sounded like a sports fan handicapping the NBA draft. Who might step forward to break up Diller's cozy deal? Perhaps Walt Disney Co., mused Biondi, leaning back in his chair. Or maybe beverage giant Seagram Co. "No, they can't," he added quickly. "They're Canadian."

Although Biondi took pains not to criticize the merger, a competing bid for CBS would be poetic justice to Viacom's executives. Biondi and his boss, Chairman Sumner M. Redstone, have spent the last five months dealing with the fallout from their own merger-turned-takeover battle for Paramount Communications Inc. The agent of their misery was the same Barry Diller who now hopes to merge his home shopping service, QVC Inc., with CBS.

**"ALL-VIACOM SHOW."** Redstone and Biondi don't need to be reminded of the wages of war: Diller added \$2 billion to the price Viacom ended up paying for Paramount. And the company's crown jewel, Paramount Pictures Corp., languished during the epic struggle. Several Hollywood talent agents say they steered projects away from the studio because of all the takeover turmoil. With just eight feature films released through July 4, Paramount's box-office market share ranked ahead of only MGM among major studios.

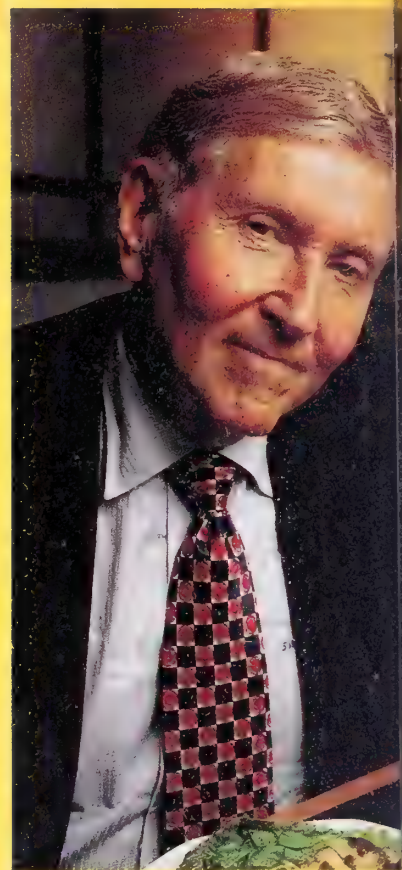
In one way, however, the fierce battle has actually made Viacom's job easier. Because Redstone acquired Paramount in a bidding war, he hasn't had to maintain the pretense that this is a merger of equals. Already, Viacom has largely replaced Paramount's corporate managers with its own team. "It's turning out to be an all-Viacom show," says one executive familiar with the company. "But that's because the corporate cultures are so different."

As Viacom prepares for its annual meeting July 7, Redstone is putting perhaps the final imprimatur on his take-

over. He is set to announce that the combined enterprise will carry only the Viacom name, even though Paramount is by far the larger component. "We don't want to walk into the trap of creating two companies," Redstone explains. "Paramount is a very valuable franchise, but so is MTV."

Such self-confidence typifies Redstone's approach to Paramount. By all accounts, he has moved swiftly—even remorselessly—to digest his \$10 billion prize. Viacom has put several of Paramount's coveted assets, including Madison Square Garden, on the block. Jonathan Dolgin, a bare-knuckles executive whom Redstone recruited from Columbia Pictures in March, is overhauling the studio. And with Redstone's approval, Biondi fired Simon & Schuster's powerful chairman, Richard E. Snyder.

Though the most notable, Snyder is only one of several Paramount executives who have departed in recent weeks. Chief Financial Officer Ronald L. Nelson left after being passed over for a similar job at Viacom. And multimedia chief Keith E. Schaefer resigned



## A \$10 BILLION GULP

The Paramount Communications acquisition turns Viacom into a heavily indebted giant

|                              | Pre-merger*   | Post-merger** |
|------------------------------|---------------|---------------|
| <b>REVENUES</b> (billion)    | <b>\$2.01</b> | <b>\$8.0</b>  |
| <b>OPERATING INCOME</b>      | <b>\$0.5</b>  | <b>\$1.3</b>  |
| <b>NET DEBT</b>              | <b>\$2.4</b>  | <b>\$9.3</b>  |
| <b>INTEREST COVERAGE</b>     | <b>3.6</b>    | <b>2.5</b>    |
| <b>STOCK PRICE PER SHARE</b> | <b>\$59</b>   | <b>\$31</b>   |

\* 1993 results. \*\* Estimated pro-forma 1994 results. Operating income represents earnings before interest, depreciation, taxes, and amortization. Interest coverage represents the number of times cash flow covers interest payments. DATA: FURMAN SELZ INC.

to start his own technology company after Viacom's new-media chairman, Edward D. Horowitz, asked him to relocate from Silicon Valley to the company's New York headquarters.

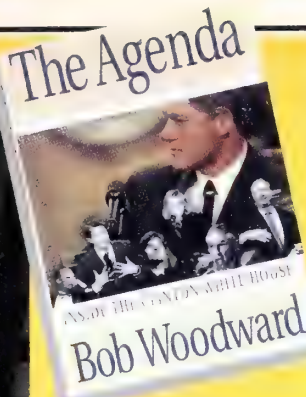
Redstone insists that many Paramount executives are adjusting well to Viacom. But he acknowledges that Para-

mount was a very different company. For one thing, it had an all-powerful boss, Martin S. Davis, and a cadre of division chiefs who communicated little with one another. Shortly after the takeover, for example, Redstone says he assembled the top executives of both companies for a series of briefings. At the meeting, Sherry Lansing, who continued to run Paramount's motion picture group, confided to Redstone that she had never heard of Simon & Schuster presentation.

Viacom, by contrast, is run by a team of four managers: Redstone, Biondi, and two executive vice presidents, Thomas E. Dooley and Philippe P. Dauman. Dooley and Dauman, who are only 37 and 40 respectively, handle the nuts and bolts of the consolidation. Dauman, who was Viacom's outside counsel before joining the company in 1993, also functions as a trustee of Redstone's estate. The way the estate is structured, Dauman could be considered for Viacom's chairmanship in the event of Redstone's death.

Despite this potentially disruptive arrangement, insiders say the four executives operate far more cohesively than Paramount's management. "Paramount's culture wasn't as open as Viacom's," says Dooley, "There aren't a lot of memo-





**REDSTONE AND BIONDI'S STABLE INCLUDES BEST-SELLER THE AGENDA, HANKS'S FORREST GUMP, AND NICKELODEON**



ing around at Viacom." order, for one, operated Sion & Schuster in an insular fashion, according to Viacom executives. And thereafter, they say, bridled at the notion of collaborating with Viacom. He said he preferred the autonomy that Paramount offered him.

**AP START.** The impact of Viacom's management changes has ranged widely. S&S, Jonathan Newcomb, who rose from president to chairman, seems determined to continue Snyder's overseas expansion and technological innovation. After some initial caterwauling, S&S's authors and editors also seem to be coming out. Under Horowitz' direction, though, Paramount's technology group is scrapping its practice of taking equity stakes in promising multimedia ventures. Instead, Horowitz wants the group to look for more immediate multimedia applications for Viacom's and Paramount's entertainment products.

So far, Wall Street is pleased with Redstone's tough style. After falling from 59% to 21% during the battle, Viacom's Class B stock has risen recently to 31%. The acquisition left Redstone lurching under \$9 billion in debt and preferred stock. Yet analysts and shareholders are impressed by Redstone's willingness to whittle that down by selling assets. Viacom seems to be getting

decent prices, too. The deadline for a first round of bids for the Garden was June 28. Sources say the bidders, which include Liberty Media Corp., New York Times Co., and Loews Corp., are offering from \$750 million to \$1 billion. At this rate, he adds, Viacom should have no trouble meeting its pledge to reduce its debt by \$2 billion within 36 months.

To ease the burden, though, Redstone must also jump-start Paramount's operations. The studio lost \$35 million in the first quarter of 1994, on revenues of \$217 million, because of such big-budget flops as *Blue Chips*. John Tinker, a media analyst at Furman Selz Inc., figures that Viacom could still generate \$1.4 billion in operating cash flow in 1994, a 24% pro-forma gain over 1993. But Tinker's estimate depends on MTV Networks' producing 33% growth. In 1993, MTV's earnings from operations jumped 39%.

**Madison Square Garden is up for grabs—and Viacom is fielding billion-dollar offers**

Dolgin is doing his part to boost earnings at the studio. He plans to hike production to 25 films next year, from 15 in 1993. And he wants to obtain outside financing for movies—something the studio had eschewed. In April, Dolgin signed a deal with actor-producer Michael Douglas to distribute 12 films. Hollywood sources say Dolgin is also cutting costs 5% to 10% across the board. He says only: "There are two ways of looking at a film. Is it good? Will it make money? We weren't doing enough of the latter."

Happily for Dolgin, Paramount may release some films this summer that meet both tests. *Forrest Gump*, a Zelig-like story with Tom Hanks in the title role, has won critical raves prior to its July 6 opening. And *Clear & Present Danger*, starring Harrison Ford, continues the lucrative series of Tom Clancy suspense films.

**MECCA BUCKS.** Despite his background as a movie-theater owner, Redstone says he doesn't interfere with Dolgin and rarely travels to the Paramount lot. Indeed, he says his only recent contribution was to suggest that Paramount promote *Forrest Gump* especially heavily to compensate for its offbeat title. "The name is not something easy like *Shoot 'em Up* or *Speed Through the Jungle*," laughs Redstone.

The 71-year-old Bostonian is also not getting overly attached to New York's sports mecca, the Garden. He says he turned up at every home game to cheer the New York Rangers and Knicks as they battled for their league championships: "But I have no second thoughts about selling it, as long as we get the price we want." He is peddling other choice assets, too, such as Paramount's music-publishing business. And Redstone is negotiating a complex deal with cable titan John C. Malone to combine the West Coast cable systems of Viacom and Tele-Communications Inc. and their respective pay-cable services.

Redstone, who flies on commercial airlines, even plans to sell Paramount's two corporate jets. But he hasn't eradicated every vestige of the old Paramount. The frugal Redstone used to walk or take taxicabs to work. Now, he rides in a car driven by Marty Davis' former chauffeur.

*By Mark Landler in New York and Ronald Grover in Los Angeles, with Kathy Rebello in San Francisco*



## GOODRICH: FROM TIRES TO PVC TO CHEMICALS TO AEROSPACE...

CEO Ong's past spins and turns haven't done much for the company. Will his new tack work?

**F**ew chief executives have reinvented their companies as often as B.F. Goodrich Co.'s John D. Ong. He got the Akron industrial giant out of the tire business in the latter part of the 1980s as competition heated up. And as the uses of polyvinyl chloride multiplied, he looked to the PVC business as the source of future riches. Then last year, he did an about-face, selling off the PVC business while putting more emphasis on his company's other chemical businesses.

But while Ong has demonstrated an unusual willingness to change course, his strategic turns haven't done much for Goodrich—or its shareholders. The company has produced an average annual return on equity of just 1.4% since Ong became CEO in 1979, compared with an average of 14.4% for the companies in the Standard & Poor's Industrials index. During the same period, Goodrich's sales have dropped an average of 3.5% a year, while the companies in the S&P index had a 5.4% annual gain (chart). Small wonder Goodrich's stock is a perennial laggard on Wall Street: Now trading at around 44, Goodrich hasn't even come close to its 1989 high of 69. Goodrich is in chronic need of a turnaround, complains one former executive. "It keeps getting fixed and fixed and fixed," he says.

**DOUBLING UP?** Now, Goodrich is being fixed yet again. The 60-year-old Ong is making a big push into aerospace—at a time when the industry is in its worst slump in more than a decade. Building on Goodrich's aircraft-parts and servicing business, Ong last year used much of the \$630 million in proceeds from the sale of Goodrich's PVC business to acquire landing-gear maker Cleveland Pneumatic Co. and Rosemount Aerospace, which makes sensors that measure flight data, such as speed and temperature. Ong's goal: By 2000, he wants to double Goodrich's revenues, to \$4 billion, with sales divided equally between aerospace and chemicals. "I suppose [the board], like I, wish we could have moved faster and done a little better," says Ong, who stepped down on June 21 as chairman of the Business Roundtable, Corporate America's high-powered lobbying group.

"But we've taken a company with enormous vulnerability and turned it into a company with a lot of promise."

That promise has been long in the making. In 1986, Ong, a Harvard law graduate who joined Goodrich in 1961 as assistant counsel, began exiting the slow-growth tire business, which had accounted for 39% of Goodrich's sales. First, he spun off Goodrich's tire business into a joint venture with Uniroyal. Two years later, Ong sold Goodrich's 50% stake to

Uniroyal's owners, a group led by the investment firm of Clayton Dubilier & Rice Inc. France's Groupe Michelin purchased Goodrich's remaining small interest in the business when it bought Uniroyal Goodrich Tire Co. in 1990.

Throughout the 1980s, Ong depended on the PVC business for much of Goodrich's revenues. The company has been a pioneer in the industry, developing the plastic back in 1926, when it was used to waterproof umbrellas and ra-





By the 1980s, PVC was being used for everything from piping to wire insulation. Still, the demand for PVC never really lived up to Ong's ambitious expectations. And later attempts to customize special PVC compounds for buyers failed to boost profits. Finally, the market cooled as the recession set in in 1990. At that time, Ong decided he wanted no part of such a cyclical business. So in January, 1993, he announced that Goodrich would sell off the PVC operation, known as Geon Co.

The proposed sale didn't sit well with investors. Many had bought shares in Goodrich largely because of its PVC business and felt Ong was unloading the unit as the economy and demand for PVC would pick up. Within a week of Ong's announcement, Goodrich shares fell 18%, to just under 43. "We were looking for a PVC exposure," says Betsey Lynch, manager of research for the State Teachers Retirement System of Ohio, which had piled its Goodrich shares. "We were just playing that part of the cycle."

Ong acknowledges that the owner-

## While shareholder returns have been below average, Ong says, they have not been disastrous

ship of about half of Goodrich's outstanding common stock has changed hands since early 1993. But he is hardly repentant. "We feel our job is to build shareholder value over the long term, not just deliver return to a shareholder who may be in and out of the stock in [a given] time period," he says. But even some shareholders who have decided to stick it out with Goodrich say Ong's decision was premature. They point out that Geon, which was spun off in two parts in April and November at \$18 and \$20 a share, respectively, is currently trading around \$26.

Ong doesn't buy much of the criticism about his performance. He argues that

Goodrich was in sorry shape when he and his management team took over—a view seconded by Goodrich's directors. "They've been dealing with tough industries," says John L. Weinberg, senior chairman at Goldman, Sachs & Co. and a Goodrich board member since 1962. "I think John has done an excellent job."

And while shareholder returns have been below average, they haven't been disastrous, Ong says. Since 1991, Goodrich's board has paid a dividend of \$2.20 a share, or a lofty annual yield of 5.06%. That compares with an average 2.62% for the S&P Industrials. "I don't think there is a case to be made the shareholder has suffered inordinately, and now he has a company with interesting growth possibilities," Ong says.

Indeed, Ong believes that he finally has the business mix he needs to generate better results. Goodrich's \$830 million specialty chemical business, which makes everything from plastics to synthetic thickeners for cosmetics, is beginning to show improvements. And the aerospace business also holds big promise, Ong says. Over the past 10 years, Goodrich has had a thriving aircraft wheel-

and-brake business. And it has gradually expanded into aircraft parts and servicing. With the industry expected to climb out of its morass by 1996, Ong sees an opportunity to build on that success.

Last year's acquisitions could further those ambitions. Cleveland Pneumatic, a landing-gear maker that Goodrich bought from Abex Inc., an aerospace company, fits well with Goodrich's existing wheel-and-brake business. Still, it has problems. The small company lost a key contract for the Boeing 777 in 1991, and its sales declined 26% last year, to under \$200 million. That's why it came relatively cheap at \$193 million. Goodrich has spent the last year improving the unit's efficiency. It has laid off 140 workers, 17% of Cleveland Pneumatic's workforce. Goodrich has also reorganized the shop floor, helping reduce the time it takes to make a landing gear from nine to six months. Rosemount, widely regarded as the Cadillac of the sensor industry, is in far better shape. Goodrich purchased the \$130 million company from Emerson Electric Co. for a hefty \$301 million.

**DOUBTERS.** The two additions have expanded Goodrich's aerospace business by almost 50%, to over \$1 billion this year. And Ong says the acquisitions will enable Goodrich to offer larger systems for aircraft, such as complete undercarriages. Until sales of new aircraft revive, Goodrich will depend on its airplane-refurbishing and spare-parts businesses. Still, some competitors question if Goodrich can meld its new and existing businesses into a true contender, squeezing more efficiency from the combined operations—especially at a time of intense competition. "The real question is how well they can integrate this stuff," says Frederick B. Sontag, president of Unison Industries in Jacksonville, Fla., which makes electrical engine components.

There are some signs that Ong's latest strategy may eventually get Goodrich back on track. Analyst Nick J. Spencer of Sanford C. Bernstein & Co. estimates that Goodrich's earnings from continuing operations—including partial results from its recent acquisitions—could quadruple this year, to \$61.4 million, as revenues rise 19%, to \$2.2 billion. That represents a return on equity of under 7%. Still, some investors are pleased. "I think they're finally focused and making good investments now," says Stephen J. Fauer, senior investment analyst at Manning & Napier Advisors Inc., a money-management firm that owns more than 7% of Goodrich's stock. Says Ong: "I've never felt more confident about our ability to deliver the goods than I do right now." Goodrich shareholders know the company has left the road. The question is whether it will really take to the skies.

By Zachary Schiller in Akron

### ONG'S SHIFTING STRATEGIES AT GOODRICH...

**1979** Ong becomes CEO. He invests heavily in polyvinyl chloride (PVC) business as uses of plastic multiply.

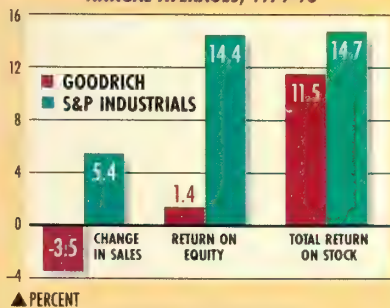
**1986** Ong begins to exit tire business. After failing to find buyer, he spins off Goodrich's tire business to joint venture it creates with Uniroyal.

**1988** Sells 50% stake in Uniroyal Goodrich venture to its partner. Michelin buys remainder of Goodrich's share in tire business in 1990.

**1993** Goodrich makes big push into aerospace. Sells off PVC business and uses proceeds to buy landing-gear maker Cleveland Pneumatic and Rosemount Aerospace, a high-tech sensor manufacturer.

### ...HAVE HARDLY PRODUCED STELLAR RESULTS

ANNUAL AVERAGES, 1979-93



DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF MCGRAW-HILL INC.; BUSINESS WEEK





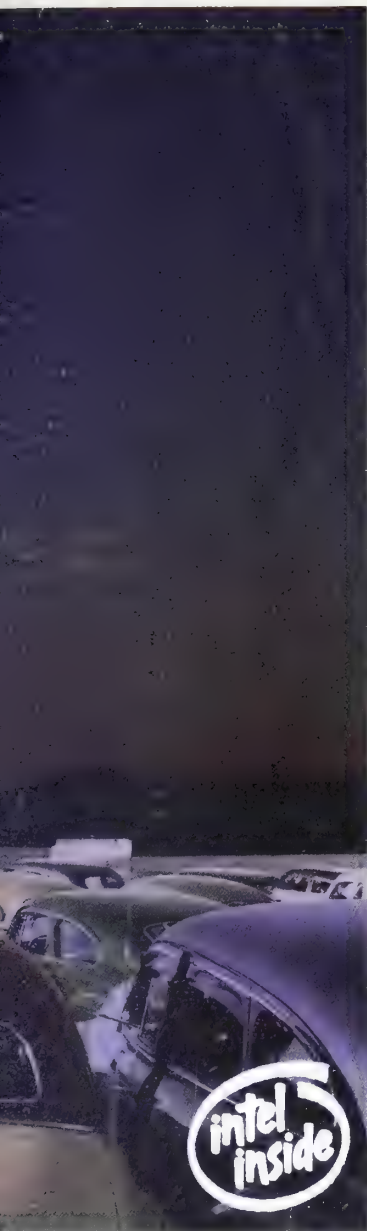
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EDITED BY AMY DUNKIN

## Small Business

# LIMITED LIABILITY: A SAFER STRATEGY FOR SMALL BUSINESS

In Germany, it's called a *GmbH*; in France, it's a *SARL*; in South America, *Limitada*. The English equivalent won't ring many bells, either, because limited liability companies (LLC) are new to most Americans. But small-business owners should familiarize themselves with this new type of status that maximizes tax advantages and liability protection. "It protects you from liability just like a corporation, but you avoid the double taxation. You get the best of both worlds," says Jerry Williford, a partner at accounting firm Grant Thornton in Chicago.

Until recently, outside of a sole proprietorship, small-business ventures had to organize as a C or S corporation, or as a partnership. Each of

these entities has major drawbacks. With a C "corp," owners get taxed twice—once on the corporate income and again on personal income when the corporate income is distributed as dividends.

S corps address this by passing the company earnings through to the owners, who are then taxed only at their individual rate. But numerous restrictions make S corps inflexible. Only individuals—not corporations—and U.S. citizens can be shareholders. That's a real drawback in these days of increasing global alliances. Also, an S corp can have no more than 35 owners and can issue only one class of stock.

A partnership solves all these problems. Profits are taxed only once at the indi-

vidual level, anyone from anywhere can be an owner, and the company can issue more than one class of stock. However, while S and C corps protect owners against personal liability if the company is sued, partnerships don't. With a general partnership, all partners are equally responsible. In states where it's allowed, partnerships avoid liability by using limited-partnership status. This enables all but one "general" partner to be limited, or protected. Commonly, partners set up a subsidiary with a small stake in the company to be the general partner and shoulder the liability.

Limited liability companies take away the need for that by providing all the flexibility of a partnership with the same

kind of protection offered by corporate structure. "People were getting there through the back door," says Barbara Spudis, a partner at Chicago law firm Baker & McKenzie and head of an American Bar Assn. task force on LLCs. "But they have to set up two entities, which is more expensive and time-consuming. A LLC is really a more streamlined way of getting there."

**PRIVATE PRACTICE.** Although forms similar to the LLC have been common outside the U.S. for many years, they are relatively new here. Wyoming passed the first law allowing LLCs in 1977, but not much happened with them until 1988, when the Internal Revenue Service ruled that would treat LLCs as partnerships for tax purposes. In the



two years, LLC activity increased markedly. More than 40 states have adopted it, and about 20,000 have been formed. Two big holdovers, New York and California, are expected to approve it by the end of the year. LLCs have their limitations, however. For one thing, only privately held companies can form them. However, it is easy to switch from an LLC to C-corporation status if you should later decide to go public. You simply re-form a new corporation and transfer the assets of the old one to it.

If you want to go the other way, from corporation status to LLC, you have to liquidate the corporation by paying capital gains tax on any appreciation in the company. So it is better for companies starting up. Another problem is that although LLCs do provide liability protection for owners, they are not sure that the extent of that protection hasn't been tested in court. Also, standard forms for administrative matters

such as opening a bank account and licensing need to be adapted.

Still, it has been a boon to some of Spudis' clients already, including Richard Schramm, whose industrial-diamond company, International Superabrasive Ltd., teamed up with a Ukrainian diamond manufacturer via an LLC. Schramm wanted to avoid double taxation, so he had to choose an S corp or a partnership. But the S corp couldn't have foreign or corporate investors, and "the Russians weren't familiar with a partnership and thought it didn't sound official enough," says Spudis. "An LLC did because the word, company, in the name reassured them."

**HOMEWORK.** While LLCs could play an important role in the global marketplace, more often it's the liability shield that companies covet. Houston real

## DIFFERENCES IN SMALL-COMPANY STRUCTURES

|                           | S corp | C corp | Partnership | Limited liability company |
|---------------------------|--------|--------|-------------|---------------------------|
| Limited liability         | YES    | YES    | NO          | YES                       |
| Double taxation           | NO     | YES    | NO          | NO                        |
| Shareholder restrictions  | YES    | NO     | NO          | NO                        |
| Transferability of shares | YES    | YES    | NO          | NO                        |

DATA: BUSINESS WEEK

estate developer Robert Wilson switched from a general partnership to an LLC to protect a building complex he is refinancing. "It's worth it from the standpoint of the liability," he says. "You can't sneeze in business today without getting sued."

For an idea of how LLCs work, study some limited partnership agreements, says David Neufeld, executive director of the Association of

Limited Liability Companies in Washington (202 965-6565). His organization can help you find a lawyer knowledgeable about LLCs. Or contact your Secretary of State's office. If your state hasn't adopted an LLC statute, you can form one in another state without moving.

Technical books on LLCs are available from a number of publishers, but Commerce Clearing House

(800 835-5224) puts out a user-friendly introduction, *A Guide to Limited Liability Companies* (\$22.50), as well as a monthly newsletter called *Limited Liability Companies Advisor* (\$169 a year). It could pay to look into this new option. Some attorneys and accountants are already predicting that limited liability companies will become the structure of choice for small businesses. *Pam Black*

takes most college graduates six months to a year to land a job. Meanwhile, health-insurance coverage they had in college or under parents' plans usually ends up shortly after they graduate. If you're crossing your fingers, counting on your son or daughter not to get injured or ill before gaining employment—and medical insurance—you might want to take preventive action.

Health-insurance providers offer designed short-term policies to act as a bridge between college grads who are no longer considered dependents of their parents, or people between jobs who want to regain full benefits soon. For as little as \$30 a month, a high deductible coverage can purchase major medical expenses. The deductibles, which usually range from a maximum of six months, don't cover preexisting conditions.

## Insurance

### HEALTH INSURANCE FOR GRADS GETTING ON THEIR FEET

That means no physical or waiting period is required.

There are a few provisions you should check besides price when comparing policies. For example, some companies exclude expenses that are incurred outside the U.S. Also,

most companies require that you pay in full up front and won't refund any unused portion. Many will not write a second short-term policy. If you don't know how long your child will need coverage, look for plans that will let you

take out another policy after the first one expires (such as Time Insurance) or that will send you a monthly bill so you can pay as you go (John Alden Life Insurance).

**CONVERSIONS.** A key difference between policies is how long benefits will be extended for an ongoing claim. Many will continue coverage for a year, but only for someone fully disabled

(confined to a bed). Golden Rule Insurance extends benefits for two full years, whether or not the insured is disabled, and also offers refunds.

If your child has a preexisting condition, major medical is inadequate. But the federal government requires companies to extend coverage for former dependents up to 36 months as long as you pay the full premium (as much as \$150 to \$300 a month). Another expensive possibility: Some employers offer conversion options that allow children of employees to convert to an individual policy when they are no longer eligible for the family plan.

If it looks as if your child's job search will extend a year or more, consider outfitting him or her with an individual comprehensive medical plan. But if your offspring is healthy and job prospects look good, short-term major medical can provide some inexpensive peace of mind until the graduate starts bringing home the bacon. *Amey Stone*

### FILLING AN INSURANCE GAP

| Policy                               | Monthly premium* | Coverage Millions |
|--------------------------------------|------------------|-------------------|
| <b>GOLDEN RULE</b><br>(317 297-4123) | \$27.42          | \$1               |
| <b>JOHN ALDEN</b><br>(800 448-1433)  | 33.20            | 1                 |
| <b>TIME</b><br>(800 743-8463 x8335)  | 33.60            | 2                 |
| <b>TRUSTMARK</b><br>(800 347-0889)   | 45.77            | 2                 |

\*For a 24-year-old male from Columbus, Ohio, with a \$500 deductible. Prices vary between cities and are slightly higher for women.

DATA: COMPANY REPORTS



## Smart Money

### STARTING A FOUNDATION? BETTER GET MOVING

**T**he charitably inclined have many good reasons to set up a private foundation, but one stands out this year. Donors of appreciated stock have been able to claim the full market value as a federal tax deduction, but that provision is expiring. As of Jan. 1, 1995, they can deduct only the stock's cost.

"It certainly takes away one of the biggest benefits of a private foundation," says Joseph Toce Jr., head of family-wealth planning at Arthur Andersen. For example, if you contribute 1,000 Microsoft shares that you bought on Jan. 2, 1990, this year, you would be able to deduct about \$51,000 from your income taxes. Next year, though, you could write off only the purchase price of \$9,650.

**WILL CALL.** That's too bad, since giving away appreciated stock is such a great way to endow a foundation. Because it is tax-exempt (except for maybe a 1% or 2% excise tax), the foundation keeps nearly 100% of the gift, while people in the top brackets get to cut their taxes by as much as 40% of the amount. That means the theoretical cost of giving stock worth \$100,000 is \$60,000. Otherwise, if you sold the same stock, you'd have to pay a 28% tax on any capital gains before you gave away the proceeds. If you held the stock until death, it might be taxed at as much as 55% in your estate.

Also, thanks to a provision in the 1993 tax bill that applies to all charitable gifts, you don't have to worry about the deduction from appreciated stock triggering the alternative-minimum tax—a separate set of tax rules that kicks in when wealthy people

write off too high a percentage of income.

After this year, people will probably wait to endow foundations at their death through their wills. That way they can deduct the appreciated value for estate-tax purposes. "The charity won't see the dollars for many more years," says

manage the investments inside the fund and decide how the money is disbursed. Most important, you get the pleasure of seeing the good your money is doing for causes you care about. If, like most people, you set up a foundation that makes donations to public charities, you decide which organizations get what and when. You can also set up a foundation to run enterprises as diverse as an arboretum or a nursing home.

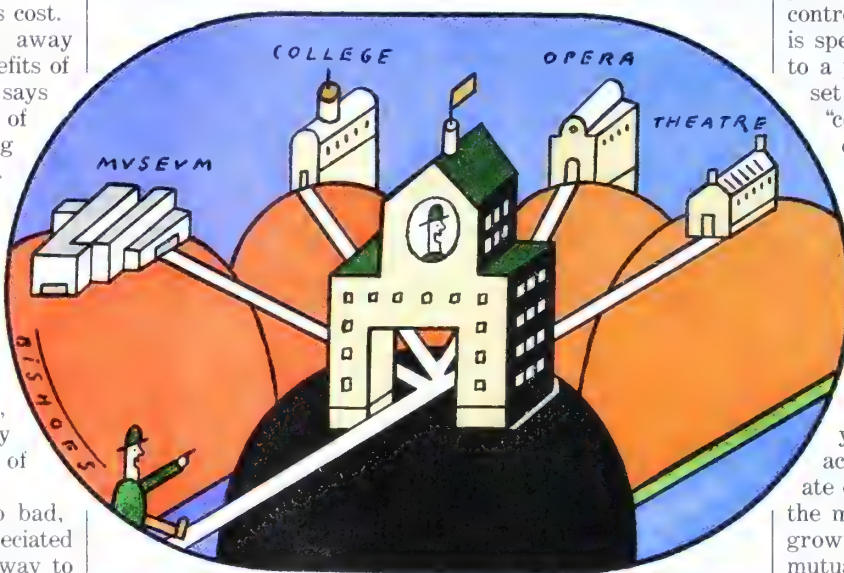
Keep in mind that you can only give gifts of appreciated property equal to 20% of your

highly regulated and have extensive reporting requirements. That means either a lot of work for you and your family or high administrative costs. For all the time and energy to be worthwhile, you should have at least \$100,000 in startup funds, says Margaret Greif, a tax partner at Weinstein Golub Kessler in New York. But you don't need to be a Rockefeller or a Ford.

**INTRINSIC VALUE.** For much less hassle—and a full deduction on appreciated stock at this year—you can give to public charity. To have so much control over how the money is spent, the best alternative to a private foundation is to set up a "donor advised" or "consult" fund through a community foundation, which manages and distributes donations to charities in a given area. The Council on Foundations can help you locate one near you. Another alternative: Fidelity Investments' Charitable Gift Fund (800 682-4438). If you transfer cash into the account, take an immediate deduction, then disburse the money later, after it has grown in a select group of mutual funds.

There is also a new set of funds expressly designed to manage investments for private and community foundations. The Investment Fund for Foundations Investment Program (800 984-0084), which started in June, includes a choice of five pooled funds with minimums from \$50,000 to \$100,000. Along with money management, TIFF provides reports, statements, and payout options geared to the needs of foundations.

But all the trouble of running a private foundation is worth something in itself. You can bring together generations for a common goal, and still a philanthropic ethic in younger family members, and help perpetuate your name. If creating a foundation appeals to you for any reason, there's no time like the present. **A.J.**



### NEED MORE INFO?

► **Council on Foundations** (202 466-6512) is the place to start. It offers a number of publications, including *First Steps in Starting a Foundation* by John Edie (\$45).

► **Foundation Center** (800 424-9836) mainly provides information to

grant-seekers but can also help those who want to create a foundation.

► **Indiana University Center on Philanthropy** (317 274-4200) publishes a free catalog of books, tapes, and reports covering the gamut of charitable giving.

DATA: BUSINESS WEEK

John Edie, the general counsel to the Council on Foundations.

And the donor won't get to enjoy many of the prime benefits of setting up a foundation. If you set aside the money during your lifetime, you not only get the income tax deduction, but also you can

adjusted gross income, while you can give 30% to public charities. But a recent Internal Revenue Service ruling confirmed that you can carry over any excess amounts that aren't deductible in 1994 and deduct them over the next five years.

Private foundations are





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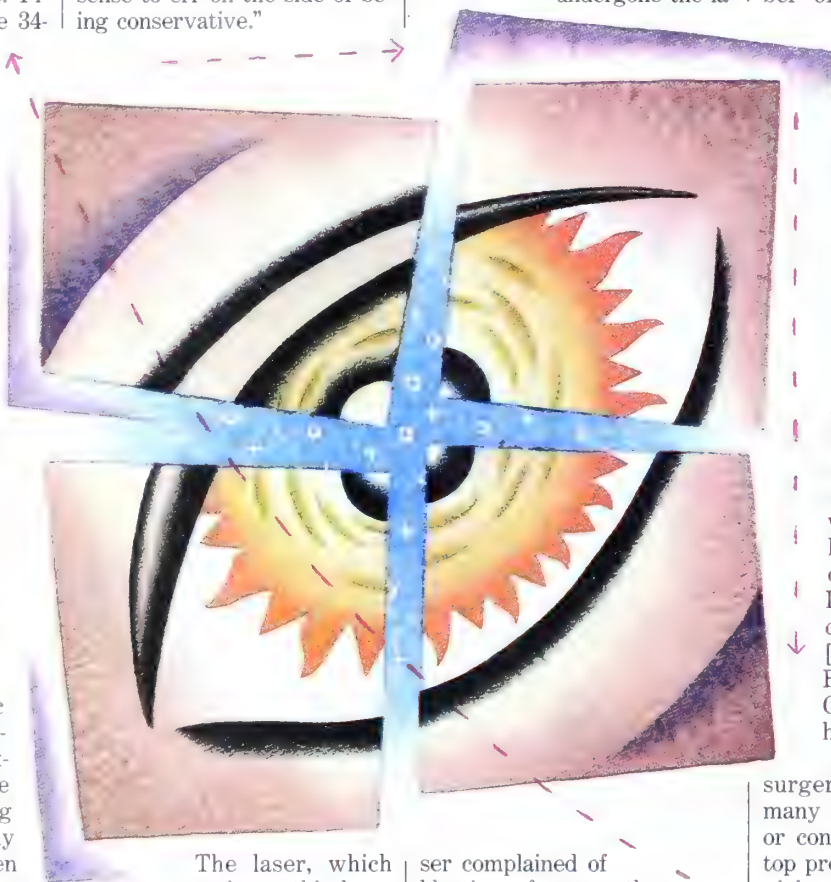
### VISION SURGERY: GIVE IT THE TWICE-OVER

**F**or 20 years, Valerie Carr wondered what it would be like to live without eyeglasses. She tried contact lenses but found the itching and irritation intolerable. Finally, 18 months ago, the 34-year-old Philadelphia-area insurance cost analyst underwent experimental laser surgery to correct her vision. She hasn't looked back. Says Carr: "Just think of one day putting down your glasses and not picking them up again."

After 16 years of expanding slowly in the U.S., corrective eye surgery is coming of age. Nationwide, nearsighted people can easily find ophthalmologists who do radial keratotomy (RK), using diamond-bladed knives to make wagon-wheel-shaped cuts in the covering of the eye, the cornea. Newer techniques, such as inserting a small plastic ring into the cornea to reshape it or surgically excising parts of the middle of the cornea, are being developed. And as many as 5,000 people have been helped by excimer laser surgery, which may win Food & Drug Administration approval for broad use by late 1995.

**CAUTION.** But as the number of techniques grows, so does the controversy. RK is notorious for being heavily advertised and hyped. Some medical experts argue that slicing into the eye can permanently weaken it and cause it to rupture if subjected to a trauma, such as getting hit by a ball. They caution prospective patients considering surgery purely for vanity reasons not to act hastily—especially since safer and more effective procedures may

be around the corner. "None of this is medically essential," says Dr. Stephen Orlin, a corneal specialist at Philadelphia's Scheie Eye Institute. "It makes sense to err on the side of being conservative."



The laser, which vaporizes a thin layer of the cornea instead of slicing it, seems to offer clear advantages over RK. Because less tissue is removed, laser surgery leaves the eye stronger. And it doesn't typically cause a "starburst" effect—the appearance of halos around lights at night, which sometimes shows up with severely nearsighted people who have undergone RK. The technique has been tested in about 40 U.S. sites since 1991 but has been commercially available in Europe and Canada for several years. Says Dr. J. James Rowsey, chairman of ophthalmology at the Univer-

sity of South Florida: "The excimer will have a broader range of efficacy."

Even so, it is not expected to replace RK completely. At \$4,000, the laser will cost \$1,000 or so more than conventional surgery—no small factor, since insurers usually don't cover these procedures. Recovery of full vision from RK can take a few days, but some patients who have undergone the la-

Says Dr. Christopher Rapuano, a surgeon at Wills Eye Hospital in Philadelphia who has used both techniques: "RK will survive."

**THE RISKS.** No matter which method you choose, you're going to wear specs again sometime, at least for reading. Both types of surgery accelerate natural deterioration in vision that comes on as most people age. Also, a fair number of patients—up to 20% with RK, less with the laser—need secondary operations or "enhancements." In a permanent injury to the eye remains a small risk.

Curiously, some surgeons say the odds of success rise with age. The best candidates are in their 30s or older. Why? Younger eyes heal more aggressively and try to return to their poor-vision shape. On the other end of the age spectrum, the eye seems to be no limit on who can be treated as long as cataracts haven't developed. "The oldest I've done is 65, but I recently had an applicant [for RK] at 85," says Rowsey. The reason? Glasses interfered with her tennis game.

Balancing the risks of surgery with its rewards, many oculists say eyeglasses or contact lenses remain the top prescription. They correct vision more predictably, they're safer, and there's no painful post-op recovery. If you're still leaning toward surgery, look twice before you proceed.

Joe We

### Worth Noting

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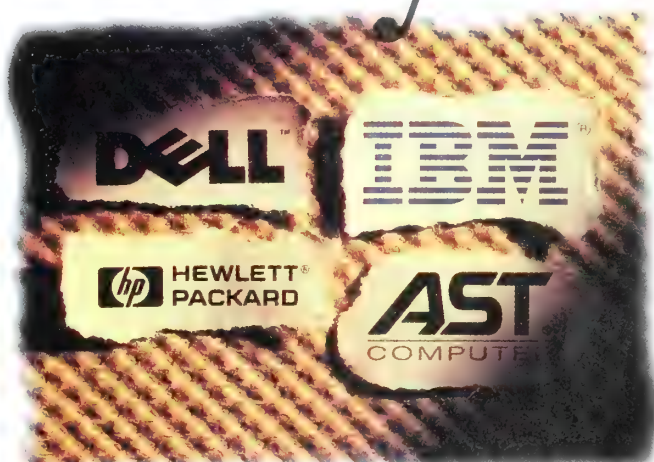
■ **SKINLESS SKINNY.** For those who buy *Playboy* for the words, IBM Multimedia Systems offers *The Playboy Interviews: Three Decades on DVD* (\$60). Among the subjects: Jimmy Carter, Bobert Frost, and O.J. Simpson.

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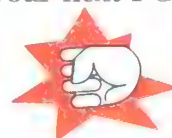


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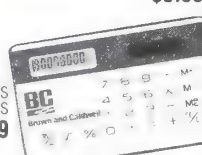
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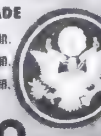


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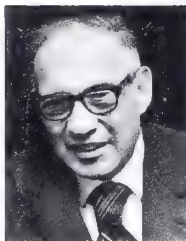
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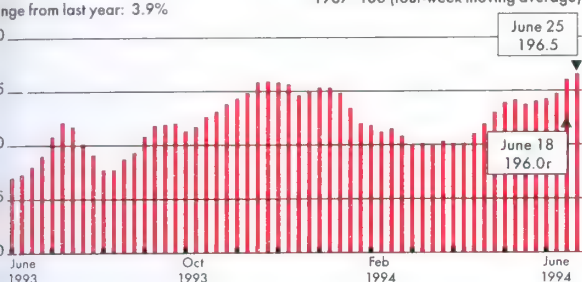
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# Business Week Index

## PRODUCTION

Change from last week: 0.3%  
Change from last year: 3.9%

1967=100 (four-week moving average)

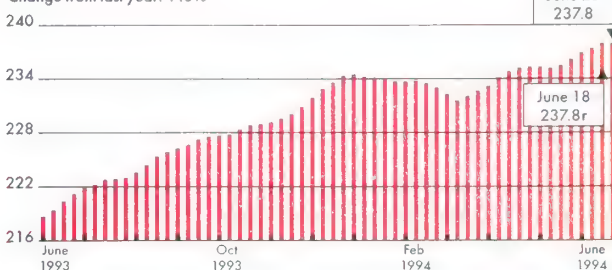


The production index rose during the week ended June 25. Seasonally adjusted output of autos, trucks, crude-oil refining, coal, paperboard, and rail-freight traffic all eased. Electric power output fell back after the end of a heat wave in the East. Lumber and paper production dropped as well. Steel output was unchanged the previous week. Before calculation of the four-week moving average, the index fell to 197.6, from 197.8.

BW production index copyright 1994 by McGraw-Hill Inc

## LEADING

Change from last week: 0%  
Change from last year: 7.6%



The leading index was unchanged during the week ended June 25. Sharply lower stock prices and higher bond yields combined with slower growth rates in materials prices, real estate loans, and M2 money supply to signal slower U.S. economic growth in coming months. Data on large-business failures were unavailable. Before calculation of the four-week moving average, the index dropped to 236.7, from a revised 238.2 in the previous week.

Leading index copyright 1994 by Center for International Business Cycle Research

## PRODUCTION INDICATORS

|                                                 | Latest week | Week ago  | % Change year ago |
|-------------------------------------------------|-------------|-----------|-------------------|
| STEEL (7/2) thous. of net tons                  | 1,914       | 1,906#    | 2.8               |
| TRUCKS (7/2) units                              | 125,540     | 145,012r# | 13.9              |
| TRUCKS (7/2) units                              | 104,962     | 118,618r# | 17.4              |
| ELECTRIC POWER (7/2) millions of kilowatt-hours | 67,781      | 69,236#   | 3.4               |
| CRUDE-OIL REFINING (7/2) thous. of bbl./day     | NA          | 14,344#   | NA                |
| STEEL (6/25) thous. of net tons                 | 19,520#     | 19,228    | 4.2               |
| PAPERBOARD (6/25) thous. of tons                | 877.8#      | 856.7r    | 5.6               |
| STEEL (6/25) thous. of tons                     | 783.0#      | 789.0     | -4.2              |
| TRUCKS (6/25) millions of ft.                   | 483.8#      | 497.5     | 4.4               |
| FREIGHT (6/25) billions of ton-miles            | 22.2#       | 22.2      | 4.7               |

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SFPA, Association of American Railroads

## FOREIGN EXCHANGE

|                              | Latest week | Week ago | Year ago |
|------------------------------|-------------|----------|----------|
| YEN (7/6)                    | 98          | 99       | 109      |
| MARK (7/6)                   | 1.57        | 1.58     | 1.71     |
| POUND (7/6)                  | 1.55        | 1.55     | 1.49     |
| FRANC (7/6)                  | 5.39        | 5.43     | 5.82     |
| ADIAN DOLLAR (7/6)           | 1.38        | 1.38     | 1.28     |
| SS FRANC (7/6)               | 1.32        | 1.33     | 1.52     |
| ICAN PESO (7/6) <sup>1</sup> | 3.397       | 3.387    | 3.124    |

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

## PRICES

|                                                       | Latest week | Week ago | % Change year ago |
|-------------------------------------------------------|-------------|----------|-------------------|
| WHEAT (7/6) \$/bushel                                 | 385.500     | 385.500  | -2.6              |
| SCRAP (7/5) #1 heavy, \$/ton                          | 111.50      | 111.50   | -3.0              |
| STUFFS (7/5) index, 1967=100                          | 207.1       | 210.1    | -0.9              |
| WHEAT (7/2) \$/bushel                                 | 116.0       | 116.4    | 28.5              |
| MINUM (7/2) \$/bushel                                 | 70.0        | 70.0     | 23.3              |
| WHEAT (7/2) #2 hard, \$/bushel                        | 3.42        | 3.47     | 12.9              |
| WHEAT (7/2) strict low middling 1-1/16 in., \$/bushel | 72.72       | 76.46    | 37.9              |

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Market, Kansas City market, Memphis market

Week data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Western Wood Products Assn. <sup>1</sup>2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

## LEADING INDICATORS

|                                           | Latest week | Week ago   | % Change year ago |
|-------------------------------------------|-------------|------------|-------------------|
| STOCK PRICES (7/1) S&P 500                | 446.30      | 450.47     | 0.2               |
| CORPORATE BOND YIELD, Aaa (7/1)           | 8.11%       | 8.02%      | 12.0              |
| INDUSTRIAL MATERIALS PRICES (7/1)         | 102.2       | 102.7      | 6.7               |
| BUSINESS FAILURES (6/24)                  | NA          | 315        | NA                |
| REAL ESTATE LOANS (6/22) billions         | \$425.9     | \$426.9    | 3.9               |
| MONEY SUPPLY, M2 (6/20) billions          | \$3,545.8   | \$3,547.6r | 1.8               |
| INITIAL CLAIMS, UNEMPLOYMENT (6/18) thous | 353         | 349        | 0.6               |

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans

## MONTHLY ECONOMIC INDICATORS

|                                             | Latest month | Month ago  | % Change year ago |
|---------------------------------------------|--------------|------------|-------------------|
| PERSONAL INCOME (May) annual rate, billions | \$5,709.4    | \$5,673.3r | 6.1               |
| CONSUMER SPENDING (May) billions            | \$4,608.5    | \$4,591.7r | 5.7               |
| 12 LEADING INDICATORS COMPOSITE (May) index | 101.2        | 101.2      | 3.2               |
| PURCHASING MANAGERS' INDEX (June)           | 57.5%        | 57.7%      | 17.8              |

Sources: Commerce Dept., National Assn. of Purchasing Management

## MONETARY INDICATORS

|                                      | Latest week | Week ago   | % Change year ago |
|--------------------------------------|-------------|------------|-------------------|
| MONEY SUPPLY, M1 (6/20)              | \$1,143.1   | \$1,152.5r | 6.4               |
| BANKS' BUSINESS LOANS (6/22)         | 295.2       | 293.6r     | 6.3               |
| FREE RESERVES (6/22)                 | 596r        | 891r       | -2.9              |
| NONFINANCIAL COMMERCIAL PAPER (6/22) | 156.5       | 159.5r     | -1.5              |

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

## MONEY MARKET RATES

|                                       | Latest week | Week ago | Year ago |
|---------------------------------------|-------------|----------|----------|
| FEDERAL FUNDS (7/5)                   | 4.37%       | 4.21%    | 3.10%    |
| PRIME (7/6)                           | 7.25        | 7.25     | 6.00     |
| COMMERCIAL PAPER 3-MONTH (7/6)        | 4.80        | 4.72     | 3.19     |
| CERTIFICATES OF DEPOSIT 3-MONTH (7/6) | 4.80        | 4.75     | 3.16     |
| EURODOLLAR 3-MONTH (7/1)              | 4.71        | 4.51     | 3.19     |

Sources: Federal Reserve, First Boston



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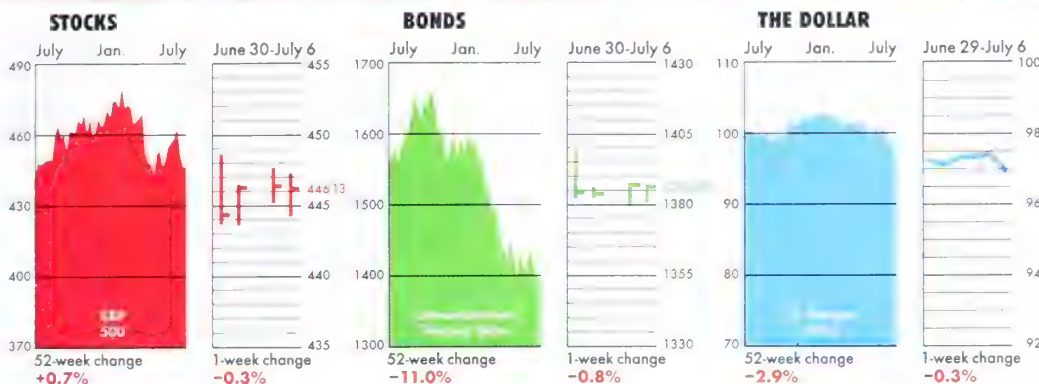
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# Investment Figures of the Week

## MARKET COMMENTARY

Generally lackluster week in the financial markets. U.S. stocks advanced modestly, with the most volatility showing up among large-cap stocks. The greatest activity came on June 30, when the Dow Jones industrial average fell 100 points, and bond prices turned down in reaction to inflation. The biggest news during the week was the CBS-QVC marriage, failed to move about much activity in takeover-prone stocks. Insensitive to oil prices led the gains.



## MARKET ANALYSIS

|                                             | Latest   | % change                  |         |
|---------------------------------------------|----------|---------------------------|---------|
|                                             |          | Week                      | 52-week |
| <b>STOCKS</b>                               |          |                           |         |
| DOW JONES INDUSTRIALS                       | 3674.5   | 0.2                       | 5.7     |
| INDUSTRIAL COMPANIES (S&P MidCap Index)     | 165.2    | 0.2                       | -0.9    |
| TECHNOLOGY COMPANIES (Russell 2000)         | 240.7    | 0.2                       | 3.2     |
| SMALL-CAP COMPANIES (Russell 3000)          | 256.1    | -0.2                      | 0.3     |
| <b>FOREIGN STOCKS</b>                       |          |                           |         |
|                                             | Latest   | % change (local currency) |         |
|                                             |          | Week                      | 52-week |
| DOW JONES INDUSTRIALS (FINANCIAL TIMES 100) | 2946.7   | 0.0                       | 3.5     |
| NIKKEI INDEX                                | 20,629.0 | 0.7                       | 4.6     |
| DAX (TSE COMPOSITE)                         | 4043.4   | 0.4                       | 1.8     |

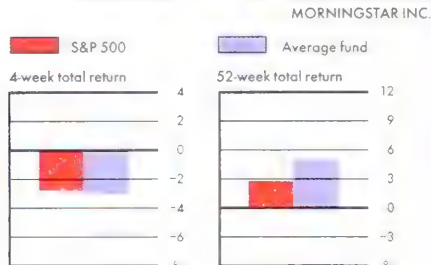
|                                           | Latest | Week ago | Year ago |
|-------------------------------------------|--------|----------|----------|
| <b>FUNDAMENTALS</b>                       |        |          |          |
| 90-DAY TREASURY BILL YIELD                | 4.34%  | 4.23%    | 3.10%    |
| 30-YEAR TREASURY BOND YIELD               | 7.59%  | 7.51%    | 6.68%    |
| S&P 500 DIVIDEND YIELD                    | 2.88%  | 2.82%    | 2.84%    |
| S&P 500 PRICE/EARNINGS RATIO              | 19.5   | 19.9     | 20.9     |
| <b>TECHNICAL INDICATORS</b>               |        |          |          |
|                                           | Latest | Week ago | Reading  |
| S&P 500 200-day moving average            | 461.3  | 461.5    | Negative |
| Stocks above 200-day moving average       | 29.0%  | 28.0%    | Positive |
| Speculative sentiment: Put/call ratio     | 0.52   | 0.54     | Positive |
| Insider sentiment: Vickers sell/buy ratio | 1.07   | 1.04     | Positive |

## INDUSTRY GROUPS

|                                 | % change |          |                                 | % change |          |         |
|---------------------------------|----------|----------|---------------------------------|----------|----------|---------|
|                                 | 1-month  | 12-month |                                 | 1-month  | 12-month | Price   |
| <b>MONTH LEADERS</b>            |          |          | <b>Strongest stock in group</b> |          |          |         |
| OIL AND GAS DRILLING            | 8.2      | -16.2    | ROWAN                           | 12.7     | -5.3     | 87 1/8  |
| AIRLINES                        | 6.4      | -8.0     | UAL                             | 9.2      | 1.7      | 128 1/8 |
| OIL WELL EQUIPMENT AND SERVICES | 6.3      | -4.5     | WESTERN ATLAS                   | 11.0     | NA       | 48 1/8  |
| STEEL                           | 5.4      | 6.3      | UST                             | 8.7      | -3.4     | 28 1/8  |
| MINING                          | 3.8      | 20.3     | ASARCO                          | 6.9      | 50.3     | 29 1/8  |
| <b>MONTH LAGGARDS</b>           |          |          | <b>Weakest stock in group</b>   |          |          |         |
|                                 | 1-month  | 12-month |                                 | 1-month  | 12-month | Price   |
| MACHINE TOOLS                   | -18.1    | -20.1    | GIDDINGS & LEWIS                | -32.8    | -26.5    | 15 5/8  |
| PACKAGING                       | -9.4     | 15.0     | ROADWAY SERVICES                | -11.4    | 9.7      | 62 1/4  |
| NEWSPAPER PUBLISHING            | -9.4     | 1.9      | TIMES MIRROR                    | -16.4    | 3.0      | 29 7/8  |
| FOOD WHOLESALE                  | -8.4     | 3.8      | McKESSON                        | -12.7    | 64.1     | 71 3/8  |
| COMPUTER SYSTEMS                | -7.9     | 5.7      | UNISYS                          | -15.9    | -22.9    | 9 1/4   |

## MUTUAL FUNDS

|                                       | Week total return | % |                                        | Four-week total return | % |
|---------------------------------------|-------------------|---|----------------------------------------|------------------------|---|
| <b>LEADERS</b>                        |                   |   | <b>LAGGARDS</b>                        |                        |   |
| FIDELITY JAPANESE SMALL COMPANY       | 8.2               |   | OVB EMERGING GROWTH A                  | -10.9                  |   |
| FIDELITY STONE NIKKO JAPAN            | 7.1               |   | IAI EMERGING GROWTH                    | -10.1                  |   |
| FIDELITY UNITED SERVICES GOLD         | 6.8               |   | DEAN WITTER HEALTH SCIENCES            | -10.0                  |   |
|                                       | Week total return | % |                                        | 52-week total return   | % |
| FIDELITY RUSSELL LYNCH TECHNOLOGY A   | 48.2              |   | MONITREND GOLD                         | -41.5                  |   |
| FIDELITY M&CO EMERGING MARKETS INSTL. | 41.5              |   | STEADMAN OCEANOGRAPHIC TECHNOLOGY      | -29.6                  |   |
| FIDELITY ADDER LATIN AMERICA          | 38.1              |   | KEYSTONE AMERICA HARTWELL EMERG. GR. A | -24.0                  |   |



## RELATIVE PORTFOLIOS

Amounts sent the present of \$10,000 one year ago. Percentages indicate total returns.

|        | Foreign stocks | U.S. stocks | Money market fund | Gold    | Treasury bonds |
|--------|----------------|-------------|-------------------|---------|----------------|
| Amount | \$12,493       | \$10,394    | \$10,201          | \$9,785 | \$9,666        |
| Change | +1.18%         | -0.21%      | +0.05%            | +0.19%  | -1.49%         |

Data on this page are as of market close Wednesday, July 6, 1994, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close.

July 5. Mutual fund returns are as of July 1. Relative portfolios are valued as of July 5. A more detailed explanation of this page is available on request. r = revised. NA = Not available.



## A SUPER YEN MAY DO WHAT POLITICIANS CAN'T

In most countries, if an antibusiness socialist/pacifist/isolationist politician suddenly becomes President or Prime Minister, one thing happens immediately: its currency plummets. Not so in Japan.

When Tomiichi Murayama became Prime Minister in June, the yen went into orbit. Weird? Not really. Japanese traders know something often lost on Washington—it doesn't much matter which politicians preside in Tokyo. Economic policy is made by a permanent class of bureaucrats and their big business allies, with politicians kibbitzing from the sidelines.

The Clinton Administration had hoped reform-minded politicians would open up Japan to further American investments and goods. Perhaps someday. But with the ouster of the reformers, Washington is now backing off from a tough negotiating stance to give the new politicians "time." This is a big mistake.

The Super Yen offers the best opportunity in years for a successful American trade initiative. The yen is becoming so expensive that it is eroding the ability of the business and bureaucratic elite to keep Japan's economy more closed as

compared to America's and Europe's. The forces against it—protectionism and for deregulation—are growing daily.

To stay competitive, Japanese corporations are hollowing out. An exodus of manufacturing to dollar-linked Southeast Asia is under way, as companies import cheaper components.

The only way for Japan to solve its yen crisis is to more than double the import penetration of its economy to the U.S. and European averages of 14% from its current level of 6%—exactly what Washington has long been advocating. Deregulation would accomplish that by increasing the supply of lower-priced imports. That would not only boost Japan's domestic demand but also raise its growth rate, providing jobs for its growing army of "window-watchers" who have nothing to do in big corporations. That is why Keidanren Chairman Shiroichi Toyoda, head of Toyota, is calling for deregulation.

For two decades, the U.S. has pushed on the closed door of Japan's economy, only to be pushed right back by its bureaucrats and businessmen. But now internal economic trends in Japan are working to the U.S.'s advantage. With the Super Yen already pushing open the door to the Japanese economy, Washington trade negotiators should really lean into

## BAD POLICY STARTS WITH BAD NUMBERS

A constant theme of the Clinton Administration has been "change." But how can policymakers take the nation in a new direction when they don't have a good grasp on current reality?

The problem is statistics. The government is still trying to measure a 1930s, industrial-style economy instead of a late-20th century information economy. It's good at tracking metal-bending stuff but miserable at discerning trends in the service sector.

So Washington collects as much data on mitten makers as on software writers. Worse, it does a terrible job measuring intellectual property. On computer software, for example, the government calculates its export value by pricing only the instruction manuals and the blank disks on which the programs are written. The actual software itself simply disappears. Ridiculous!

What does this mean? While President Clinton is discussing the "weak" dollar at the Group of Seven meeting in Naples, the seven heads of state will be looking at figures showing the U.S. merchandise trade deficit running at an unnerving \$150 billion. But the reality is that exports are a lot higher and the deficit a lot lower. A \$300 software program exported to Europe is listed at about \$5 on the U.S. trade books. Total software exports probably alone amount to \$4 or \$5 billion, not counted in the official stats.

The government's lousy numbers cause real damage when it comes to measuring inflation. Practically the entire economics profession is unanimous in agreeing that the CPI, the

consumer price index, generally overstates inflation by 1 to 1½ percentage points. Officially, prices are rising at 2.4% this year—and so are expensive government cost-of-living allowances. If inflation is really going up at 1½%, not 2½%, Washington could save \$50 billion over the next five years, a tidy sum to help pay for health-care reform.

What can be done to fix this mess? First, Congress and the President should take seriously statistics and their economic and financial impact. At the moment, statistical agencies are largely orphaned. Paying attention means finally naming a director of the Census Bureau and spending the dollars needed to get government statistics up to date. A few million could go a long way.

Second, data collection is now divided among scores of offices and agencies throughout the government. In trade, for instance, the U.S. Customs Service collects the basic information, but the Census Bureau and Bureau of Economic Analysis share responsibility for reporting and analyzing it. This kind of bureaucratic feudalism is silly. At the very least, agencies should be allowed to share company-level information—cooperation that is now illegal in many instances.

Beyond that, Washington should consider a wholesale restructuring of its statistical agencies. Some of the work, such as collecting market and price data for some commodities, could be privatized. The rest should be turned over to a single government agency, much like Statistics Canada, a model system that in many respects puts the U.S. data collection and analysis to shame.

Technical drawing of the ROHM 5930 mobile phone, showing dimensions and features. The drawing includes the following labels and dimensions:

- HEADSET OPTION:** 1.5" (38.1 mm) diameter, 0.25" (6.35 mm) diameter, 2.25" (57.15 mm) diameter.
- LCD DATA DISPLAY (TILTABLE):** P/N 25013-3, 4.375" (111.1 mm) width.
- 5.0" SEC PRINT(B):** 5.0" (127 mm) height.
- SPEAKER GRILL HANDS FREE OPERATION DESIGN:** 3.125" (79.25 mm) height, 0.25" (6.35 mm) width, 1.83" (46.35 mm) width.
- LED LIGHT PIPE CLEAR PLASTIC(FRONT):** P/N 29102, 9.438" (240.1 mm) height.
- 5930 FACE PLATE:** 0.875" (22.25 mm) height, 0.625" (15.875 mm) height, 0.937" (23.8125 mm) height, 0.125" (3.175 mm) height, 0.25" (6.35 mm) height.
- LINE BUTTON:** P/N 282-3, 0.125" (3.175 mm) height, 0.375" (9.525 mm) height, 1.825" (46.375 mm) height.
- 50° TYP:** 50° angle.
- 0.125" (3.175 mm), 0.375" (9.525 mm), 1.50" (38.1 mm):** Dimensions for the bottom section.

6. *Topicality*. Ref. 1, p. 51



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# BusinessWeek

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## THE *Craze* FOR CONSULTANTS

How Management Can Get Its Money's Worth



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*The Air Force has the Stealth.  
Music has Sinatra.  
Paris has the Eiffel Tower.  
We have this.*



*On October 24, 1988, Nissan officially unveiled a new Maxima. It was designed to be the first automobile to give high-priced European dream sedans a run for their money. It offered size, style, power, grace and two very important things its expensive competition couldn't possibly match: Outstanding reliability and a very reasonable price of entry.*

*The Maxima experienced a meteoric rise to success. Automobile Magazine hailed it "the best \$20,000 sedan we've ever driven."<sup>\*\*</sup> Car and Driver said, "In the international sports-sedan class, we reckon that it's gold-medal material!"<sup>†</sup> It gained a reputation for amazing quality. Made top ten lists. And by 1994, the Maxima had become the best-selling*

Nissan Motor Corporation U.S.A. Smart people always read the fine print. And they always wear their seat belts. Bose is a registered trademark of Bos Corporation. \*MSRP for 1995 Nissan Maxima GXE excluding taxes, title, license, destination, options and locally required equipment. \*\*Automobil Magazine, 7/89. †Car and Driver, 11/91. †1995 E.P.A. Fuel Economy Estimates 21 city/28 highway with automatic; 22 city/27 highway with 5-speed

import car in its class for nine consecutive years.

Now, without further ado, we proudly introduce you to our latest Maxima.

An astonishing automobile that doesn't merely challenge more expensive luxury/performance sedans—it runs rings around them.

To begin with, the new Maxima GXE boasts an



The 1995 Maxima GXE. Starting under \$20,000.\*

amazing V6 engine that generates 30 more standard horsepower (for a grand total of 190 hp) and gets 10% better fuel economy (21 mpg city/28 mpg highway) than its predecessor.<sup>††</sup> For those keeping score at home, all this equates to scorching 0-60 times that are faster than a 1994 Acura Legend LS and a Lexus ES 300 while getting gas mileage that's equal to the

far less power.

Our engineers also worked wonders with the suspension. We won't go into great detail, except to say the new Maxima rides quieter and smoother on rough roads than a Lexus ES 300 and can outcorner an Acura Legend LS with relative ease.<sup>§</sup>

Of the many significant improvements, perhaps the most noticeable is the increased cabin volume. We've added more leg room, shoulder and head room. We've also added touches like woodgrain appointments, an eight-way electronically adjustable driver's seat, and a custom-designed 6-speaker Bose® stereo system on the Maxima GLE, while safety features like dual airbags and high-strength steel pipe beams in the doors have been newly provided as well.

But of all these exceptional achievements, perhaps the most remarkable is that the new Maxima can still be yours for a starting price of under \$20,000.\*

And that's something that can't be said for the Stealth, Frank Sinatra or that famous tower in Paris.

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The New Nissan Maxima



It's time to expect more from a car.<sup>™</sup>

Use these E.P.A. estimates for comparison only. Your mileage may vary. Comparison vs. 1994 Toyota Camry with automatic transmission. §Based on independent tests conducted by AMCI using 1995 Nissan Maxima GLE vs. 1994 competitive sedans. Ride smoothness measured from driver's seat. Quietness based on decibel level at 55 mph. Cornering based on speed through dry cornering maneuver. GXE model shown with optional alloy wheels.





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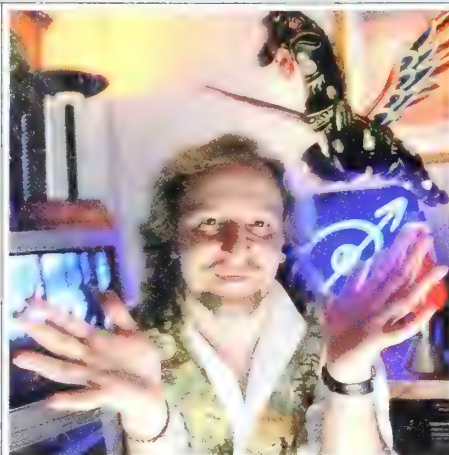




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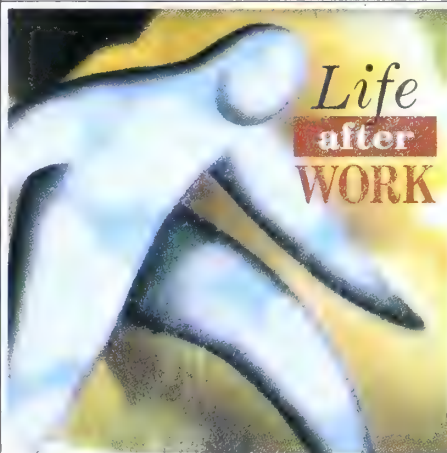
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# Up Front

TALK SHOW

*I will defer to you on this, but I will be back.*

—President Bill Clinton, retorting to Group of Seven leaders, who dismissed his bid to expand the General Agreement on Tariffs & Trade

EDITED BY LARRY LIGHT AND JULIE TILSNER



WORLD FINANCIAL CENTER: A strong yen hurts

## FAULTY TOWERS

### O&Y'S NIGHTMARE ON WALL STREET

The headache of overhauling Olympia & York is about to reach migraine proportions. The troubled real estate empire, once controlled by Toronto's Reichmann family, is now restructuring its U.S. unit's \$5 billion debt, mainly on New York office buildings. Talks between the company and creditors, who

won't comment, next turn to O&Y's three World Financial Center towers—and this won't be pretty.

Consider the \$800 million debt on 2 World Financial Center. The debt is in bonds originally sold to Japanese investors, valued at 123 yen to the dollar. But the greenback has slipped below 100 yen, so add an extra \$160 million to the debt load for negotiators to squabble over.

Another challenge is 125 Broad St. (debt: \$277 million), whose main lender, Canadian Imperial Bank of Commerce, will soon take over, say those close to the talks. The good news for the bank: It's nearing a deal to sell the place to two tenants, insurance broker Johnson & Higgins and law

firm Sullivan & Cromwell. The firms and the bank won't comment.

The bad news: As part of that deal, Canadian Imperial would be saddled with a lease O&Y holds on 200,000 square feet of nearby 7 Hanover Square, once held by Johnson & Higgins. O&Y assumed it in

1986 to lure the insurance broker to 125 Broad. Trouble is, O&Y then sublet to tenants who are paying today's rate (around \$35 per square foot at 7 Hanover, and O&Y must fork over mid-'80s rents (\$25) to the building's owner, say real estate brokers who have looked at the deal.

## BEST-LAID PLANS

### CEREAL KILLER STALKS THE HEARTLAND!

In April, General Mills took a bold step to revive its sagging cereal business. The remedy: Reduce prices 11%, while cutting back costly coupons and trade promotions. But the stratagem has run into an unexpected snag: oats contaminated by the wrong insecticide. You can't beef up profits with bare shelves. General Mills has had to impound some 15 million bushels of oats and 50 million boxes of cereal—and close plants for cleanups. It has announced an estimated charge against 1994 earnings of at least \$63 million. The company was counting on bringing off its new plan with-

out losing sales. Sorry. Rival eat up this sort of thing. At Dominick's Finer Foods in Chicago, beside empty General Mills shelves, new signs push the store's knock-off version of Big G's venerable Cheerios.



IDLE OATS: Pesticide wasn't approved

General Mills hopes that the oats imbroglio will soon be over. In the long term, Wall Street analysts are still wary of the new marketing plan, fearing rivals will step up coupons and promotions. And C. Lawrence's Timothy Ramey questions to what degree retailers will pass along the new lower prices for General Mills cereals—especially with the shortages. *Greg Bur*

## UPWARDLY MOBILE

### NEW LADIES OF THE CLUB

Economics has been a mostly male club. Until now. Women got 22% of the economics PhDs in 1992, vs. 10% in 1975. Almost one-half of practicing economists in the U.S. in 1993 were female, compared with one-third back in 1985, reports the Labor Dept.

Leading the way are four women who occupy some of Bill Clinton's most senior economic posts. Alice Rivlin is moving up in Washington's pecking order, climbing from No. 2 in the White House budget office to No. 1. Laura D'Andrea Tyson chairs the Council of Economic Advisers. Joan Spero serves as the State Dept.'s Under Secretary for economic policy. And over at

Treasury, Alicia Munnell is Assistant Secretary for economic policy. She quips: "We've graduated from home economics to macroeconomics." *Paul Magnusson*



RIVLIN: Budget boss

ton's most senior economic posts. Alice Rivlin is moving up in Washington's pecking order, climbing from No. 2 in the White House budget office to No. 1. Laura D'Andrea Tyson chairs the Council of Economic Advisers. Joan Spero serves as the State Dept.'s Under Secretary for economic policy. And over at

## REALITY CHECK

**JANET RENO SAYS** Pentagon-sponsored high technology can bring police into the 21st century. Besides, the Attorney General's plan could help a slumping defense industry by finding a new market in crime-fighting. Indeed, the Dick Tracy wizard-

ry being developed by contractors and government labs is dazzling cops. An example is gun that recognize their owners' fingerprints—and can't be fired by anyone else. That could help prevent police deaths caused by their own weapons



**IN REALITY,** much of the technology may prove too expensive and impractical. About 90% of police budgets goes to salaries. So try finding money for the slime gun, which stops crooks in their tracks. This device, developed by Sandia National Laboratories, may cost a prohibitive \$1,000 per unit. Plus, the cur-

rent model requires toting a bulky carrier on your back. And some of the stuff is deadlier than it seems, such as pepper spray used for riot control in Somalia. A year ago, police in Concord, N.C., used the spray to subdue a man who had a lung condition. His death set off a week-long riot. *Catherine Yang*





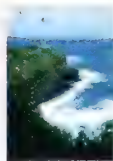
1000 Sunsets & Sunsets



2000 Mountains of Am



3000 WW II Planes



5000 Coasts



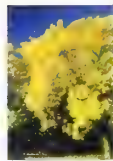
6000 Wild Animals



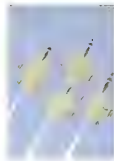
7000 Sailboats



8000 Birds



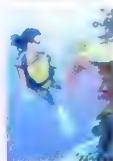
9000 Trees & Leaves



10000 Air Shows



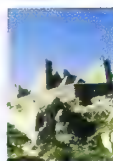
11000 Patterns



12000 Underwater Reefs



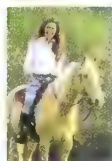
13000 Flowers



17000 Ireland



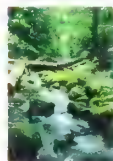
19000 Arizona Desert



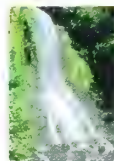
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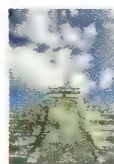
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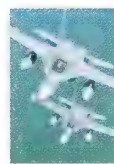
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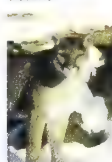
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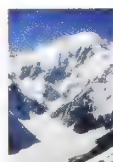
38000 Am. National Parks



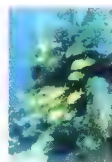
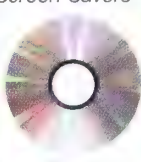
41000 North Am Wildlife



42000 Predators



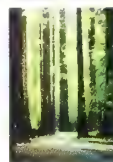
44000 Alaska



45000 Underwater Life



46000 Hawaii



48000 Northern California



52000 Butterflies



54000 New Mexico



56000 Sacred Places



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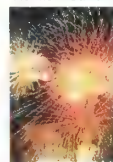
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66000 Barnyard Animals



68000 Caribbean



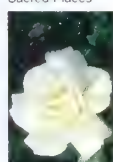
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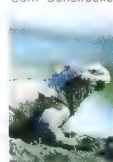
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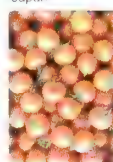
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# Up Front

## PRODUCT PEEK

### A DOLLAR FRAYED IS A DOLLAR RECYCLED

**P**aper money, like the mortals who spend it, doesn't last. After 18 months, \$1 bills are too frayed for general circulation. A fin is around for just two years. And \$20 greenbacks? Three to four years. The feds dispose of 7,000 tons of worn-out bucks annually. And it costs big bucks, the still-in-use kind, to shred bills, pack them into bricks, then dump them in landfills.

Several Southern California companies have a novel use for all that spent cash: recy-



**DOUGH:** In your wall?

cling it into everything from stationery to fiberboard used in walls during construction. In the white fiberboard made by Gridcore Systems International in Carlsbad, you can see pieces of dollars. Terra Roofing in Fontana makes roof shingles, while others produce fireplace logs, for buyers with money to burn.

First, the government shreds the bills into long strips that resemble greenish angel-hair pasta. But the companies don't have to pay for the raw material other than to haul it away. You might object that, once again, Uncle Sucker is giving away money and getting zero in return. Well, at least there's an environmental benefit: more room in landfills. *Scott LaFee*

## ON THE FUND FRONT

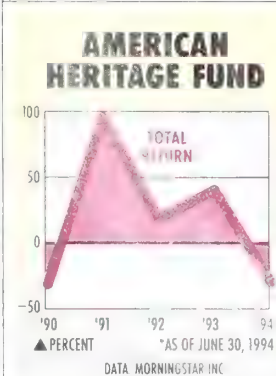
### IF AT FIRST YOU DON'T SUCCEED...

**H**eiko Thieme is a bull's bull. It takes one to launch a mutual fund—his second—in today's choppy market. Especially since Morningstar says his first fund, American Heritage (\$91 million in assets), was among the worst performers in 1994's first half, down 28%.

None of this daunts Thieme. He unveiled the new fund, no-load American Heritage Growth, in early May. Like American Heritage, it focuses on undervalued stocks,

but will avoid speculative highfliers and stick with established names such as IBM. Letters from Thieme welcome minimum investments of \$5,000. Total investment in American Heritage Growth as of July 11: just \$291,000.

Still, when Thieme took over American Heritage from another manager in 1990, it was a sickly fund with a -31% return. Since then, he rode the bull market, turning in heady performances averaging 49% annually. The market's 1994 woes have hit American Heritage hardest because of sour holdings, such as scandal-plagued Spectrum Information Technologies. □



**THIEME:** Avoiding highfliers.

## DRAWN AND QUARTERED

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## WONDERS OF SCIENCE

### HANGOVER-PROOF 80 PROOF?

**W**ant to get zorched on vodka—and not suffer a hangover the next day? That's the marketing pitch of San Francisco-based Skyy Spirits, which claims that a special "four-column" distillation system takes out substances called "congeners" that make the morning after so painful. Congeners are toxic impurities that form during fermentation.

The no-hangover pledge, plus a distinctive cobalt-blue bottle and low price (20% cheaper than top imported brands), has won attention. Introduced in 1992, Skyy says it is in 27 states

and, by yearend, hopes to hit 100,000 cases annually. While that is nowhere near top-seller Smirnoff (6.1 million cases), it's respectable.

But what about the no-hangover claim? Competitors and some industry analysts are skeptical. Joseph Frohlinger, publisher of a liquor-industry newsletter, says an 80-proof vodka such as Skyy will give anyone a hangover. The argument: Congeners can't be totally removed. And besides, congeners are what give the booze its taste. No one,

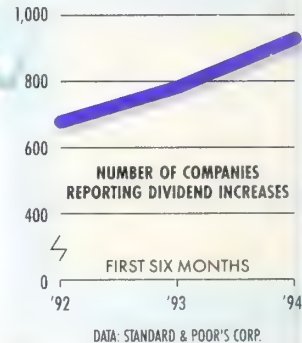
though, has challenged Skyy claim before regulators.

Skyy CEO Maurice Kanba scoffs at the doubters. "Try it yourself," he says. We did. Result? A wee hangover. But maybe we didn't drink enough.

## THE BIG PICTURE

### DIVIDENDS DRIVE UP

The first half of 1994 saw the number of companies reporting dividend increases up by 19% over the same period a year ago. The 930 total is the best showing in 13 years, says Standard & Poor's. What does it mean? An improving outlook for corporate profits.



## FOOTNOTES

Increase in Japanese purchases of U.S. auto parts, 1993: **14%**. Needed this year to meet 1992 pledge: **23%**



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## PRESERVING THE 'NOBLE PURPOSE' OF SOCIAL SECURITY

Robert Kuttner unfortunately joined the fear-mongering special-interest groups who have labored against entitlement reform with his piece "Why are we so insecure about Social Security?" (Economic Viewpoint, July 4).

He opens by declaring that our Bipartisan Commission on Entitlement & Tax Reform is "on a crusade to demonize entitlements, particularly Social Security." I and several other members of the commission have said repeatedly that entitlement programs—particularly Social Security—serve a noble purpose that must be preserved. It is for precisely that reason that reform is necessary. Were we opposed to the programs, demonization would be unnecessary: We would need simply to leave the programs alone and allow them to consume themselves, a direction in which mathematics shows they are now headed.

Kuttner proceeds to lay out a series of modest options for reform, apparently in an effort to paint the commission as favoring stronger—in his words, "alarmist"—options. In fact, those reforms are all under consideration by our group. One of the plans Kuttner cites in arguing against the commission was actually authored by a commission member, Representative Dan Rostenkowski.

Kuttner concludes with a common myth of the entitlement debate: health-care reform alone will solve the problem. While he is correct to argue that reform is an important part of the solution, it will do nothing to address the demographic trends propelling entitlement spending out of control. Even the strongest advocates of cost containment recognize the need to address the bigger problem of projected entitlement growth beyond the rate of health-care inflation.

Bob Kerrey (D-Neb.)

U.S. Senate  
Washington

Kuttner suggests that the solution to the age-based inequities of ballooning entitlement payments to seniors is to extend health-care entitlement payments

to all age groups. He supports this dubious recommendation with the claim that such action would inject fiscal prudence into the system "by compelling the health system to live within an overall budget." Kuttner could lend some credibility to his argument by providing a list of government programs that have ever contained costs or lived within budget.

Daniel R. Miles  
San Diego

## GO SHORT ON A FIRST TRADE? WHY THE HECK NOT?

Regarding your article "The more Hillary tries to explain..." (Up Front, July 4), as an individual involved in trading at the Chicago Mercantile Exchange I find ridiculous the assertion from a "top Merc official" that, "it's unheard of for a novice to go short on a first trade. If this top Merc official ever traded for living, I would be quite surprised, as any good trader knows to follow the trend and not to bias one's trading toward the short or long side. My first futures transactions were to short Treasury bond futures and Standard & Poor's 500-stock index futures. At the time I did those transactions, I certainly would not consider myself to have been beyond the novice level.

Mark D. Bateman  
Chicago

## THE REAL STRUGGLE AT CAT: BOTH SIDES SOUND OFF

For a business magazine that promotes U.S. industry innovation and competitiveness, you failed badly in your article entitled "Much ado about pettiness" (Top of the News, July 4), concerning Caterpillar and the United Auto Workers. I'm sure the union thanks you for an article that makes it sound like the primary issue at stake is a big, rich company too stingy to give its union workers a decent pay raise and too egotistical to let its workers wear slogan critical of company management.

A pivotal national battle between an outdated, regressive, destructive union and a progressive, highly efficient, mod-

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A man in a dark suit is seen from behind, balancing on a thin tightrope. He is holding up a large, triangular map of a village with red-roofed houses and a church. The background is a swirling, blue and white globe, suggesting a global perspective.

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## CORRECTIONS & CLARIFICATIONS

"Requiem for a heavyweight" (Top of the News, May 23) should have identified Stanford University's football rival in the "big game" as the University of California at Berkeley, not the University of Southern California.

ern company is currently focused on Peoria, Ill. It is a fight for the competitiveness of American companies in a world marketplace. It is a struggle against the failed workplace-entitlement mentality that has already ruined the economies of much of Europe.

Most of us in Peoria hope that Caterpillar does whatever it takes to continue its world-class performance.

David C. Wright  
Editor

*Inter-Business Issues*  
Peoria, Ill.

I disagree with your statement that Caterpillar won a hands-down victory when we ended the 5½-month strike in 1992. The workers are more determined today than ever to stand together to resolve the unfair labor practice complaints and then move on to the other issues.

Cat might contend that the average worker earned \$49,000 last year, with overtime. The only problem with that is under the "final offer" there would be very little overtime pay. Cat expects most everyone to work an alternate work schedule of four 10-hour days or three 12-hour days at the straight-time hourly rate. Also, most new hires and recalls would earn \$7 to \$8.50 an hour, with minimal benefits.

Caterpillar is still trying to convince everyone that the union demands a John Deere pattern agreement. Truth is, the union hasn't talked pattern agreement for some time.

Barry L. Koicuba  
President, Local 786  
United Auto Workers  
York, Pa.

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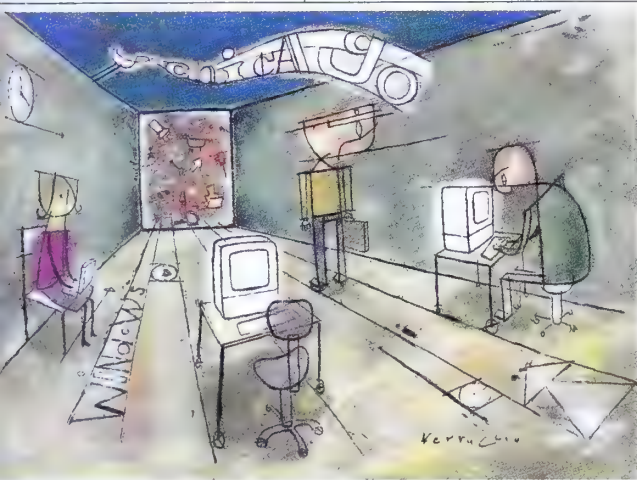
EDITED BY STEPHEN H. WILDSTROM

## WINDOWS? WAIT FOR CHICAGO

Anyone who pays any attention to the computer scene knows that the biggest news around the coming of a replacement for Microsoft Windows 3.1. The advent of a new operating system will eventually force every business and individual user to ponder just when to upgrade. But there are more pressing considerations for potential computer buyers and for the millions

named Chicago. Microsoft says Chicago, which will replace both Windows and DOS, will be available to users before the end of the year. The program's debut date has been postponed before, but even if Microsoft can't hit its latest target, the software will probably ship in early 1995.

Chicago promises to be considerably easier to learn and use than Windows 3.1, which has been around since 1992.



who have forgone the glitz and graphics of Windows to stick with plain old MSDOS.

For MSDOS users, an eventual upgrade to a graphical user interface—generic computerese for Windows—is inevitable. You can still get your work done, but updates to your favorite programs are getting more and more infrequent, and it was tough to get the new laser printer working with that old word processor.

**TIME AND MONEY.** Still, there's an argument for waiting. Learning to use Windows (\$99 retail) requires an investment of time, effort, and perhaps cash for training. And Microsoft is about to render much of what you will learn obsolete with a product code-

"I have used it next to regular Windows, and the user interface is, in fact, superior," says Alex Morrow, general manager of product-line architecture for Lotus Development Corp. "It's a lot easier to navigate."

For example, Chicago will make it easier to use several applications at once by keeping a list of running programs on a "task bar" on the screen at all times. That means you can interrupt work on your Monday morning presentation to answer a co-worker's questions about the latest sales data, check your E-mail, then get back to the presentation without, in each case, just the click of a mouse. Perhaps the feature that will please users most: File names, limited to

eight characters plus a three-letter "extension" since the dawn of DOS, will be up to 255 characters long, and blanks will be allowed.

Microsoft sells some 2 million copies of Windows 3.1 a month, mainly preinstalled on new machines, so it doesn't want MSDOS users—or computer buyers—to wait for Chicago. Says Microsoft Vice-President Brad A. Silverberg: "In general, I'd recommend switching now. Later, if you want the power of Chicago, you can migrate in 15 to 30 minutes." Cost isn't a big consideration, since Microsoft will offer a Chicago "upgrade" to Windows and DOS users, probably for around \$50. Trouble is, much of the investment in learning Windows will be wasted. Silverberg says Microsoft's own tests show that users can learn their way around Chicago in one-fifth the time it takes to learn Windows 3.1.

**PLUG IN.** If you have to upgrade your computer to take full advantage of graphics-based software, the argument for waiting is even more compelling. Chicago supports a new PC design standard called "plug-and-play" that should make it much easier to set up and upgrade your computer. Any new machine you buy should be plug-and-play—and should come with at least a 340-megabyte hard drive and 8 megabytes of random-access memory. Although Microsoft says Chicago will run on a computer with 4 megabytes of memory, 8—the amount needed to run Windows 3.1 effectively—is a better bet.

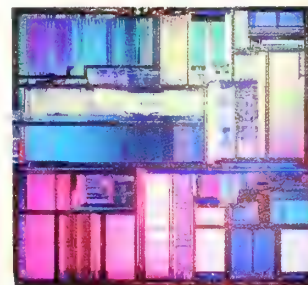
For the dwindling band of MSDOS addicts, waiting means putting up with that old software for a while longer. But at least software makers insist they will not abandon non-Windows products. "We are not forcing the decision [to upgrade] on our customers," says Glenn Mella, vice-president of Novell Inc.'s WordPerfect unit. If you've waited this long to make the change, you might as well hold on for a few more months. S.W.

## BULLETIN BOARD

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#### A PENTIUM PC IN EVERY POT

Intel is discovering that computers powered by its top-of-the-line Pentium chip are surprisingly appealing to home users. Richard B. Pierce, Intel's multimedia marketing director, says that about half of Pentium computer purchases are made through retail chan-



nels, indicating strong consumer demand. Intel is working to stimulate this demand, recently running "Pentium Demo Days" promotions at such retailers as CompUSA.

Why the home-market bonanza? Recent price cuts mean Pentium may cost only \$200 more than the fastest computers based on older 80486 chips. That amount of money may be less intimidating when buying one computer for the home than when buying hundreds for an office. Also, home multimedia applications featuring sound and animation can require more computer horsepower than word processing and other office chores.

### COMPATIBILITY

#### PLUG-IN WINDOWS FOR MAC

Could the third time be the charm as Apple Computer tries to make a Windows-compatible Macintosh? The initial efforts, the Quadra 610 DOS Compatible and SoftWindows for the PowerMac, were badly underpowered. Apple is developing a plug-in card that would let PowerMacs run Windows as fast as a 486 PC.



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**LEAN AND MEAN: THE CHANGING LANDSCAPE OF CORPORATE POWER IN THE AGE OF FLEXIBILITY**

By Bennett Harrison • Basic Books • 324pp • \$25

## WHO SAYS BIG COMPANIES ARE DINOSAURS?

Lately, financial journalists, economists, and executives alike have embraced a creed once espoused solely by whimsical ecologists: Small is beautiful. Big companies, they say, are dinosaurs. Their tiny brethren create most new jobs and lead in quality and innovation. Unless giants such as General Motors, IBM, and Kodak can duplicate the agility displayed by the little folks, they'll never regain their edge.

Well, anyone committed to the vision of a world led by small, nimble companies would do well to read Bennett Harrison's *Lean and Mean: The Changing Landscape of Corporate Power in the Age of Flexibility*. Through his own research, corroborated by the research of others, Harrison, a professor of political economy at Carnegie Mellon University, effectively demolishes the notion that

small companies are the font of either job growth or innovation.

Moreover, Harrison writes, at least some large corporations have discovered how to become less rigid, more entrepreneurial, and less hierarchical. The worldwide growth of networks of corporate cooperation inspired—and to some degree driven—by the Japanese *keiretsu*, mean, in Harrison's view, that it is the corporate giants that will survive and dominate. Companies such as Nike, Ford, and Motorola may hire others to build their products or may produce them in scattered locations, but thanks to a web of links tying together suppliers and customers, they will cede little else. Writes Harrison: "Production may be decentralized, while power, finance, distribution, and control remain concentrated among the big firms."

Harrison's most original work comes in his opening chapters, in which he attacks—with obvious relish—the notion that small companies create most new jobs in the U.S. Not only is that not true, Harrison asserts, but the research that first supported the claim was highly questionable. That was the work of David Birch, then a Massachusetts Institute of Technology researcher, who said in 1987 that 88% of the jobs generated between 1981 and 1985 had been spawned by companies with fewer than 20 employees. State and local governments, Birch posited, should promote the birth of as many new businesses as possible.

But Birch's research was flawed, says Harrison, because the early data he used exaggerated the incidence of startups and because his analysis covered too short a period. In addition, Harrison argues, Birch's failure to recategorize companies once they grew or shrank "systematically inflates the relative importance of the little guys."

Using the more common definition of small companies as those with fewer than 100 employees, Harrison finds that the proportion of Americans working for small companies and individual estab-

## ONE SMALL STAMP FOR A MA

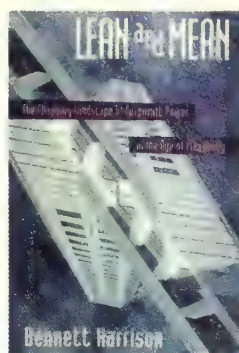
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ments—slightly more than 50%—has barely changed since the 1960s. And the share of manufacturing jobs in small businesses, he reports, has hovered at around 10% since the early 1960s. The “lion’s share of job creation over time,” Harrison argues, “is contributed by a tiny fraction of new firms.” Dun & Bradstreet Corp., he reports, found that among the 15,000 businesses begun in 1985, 75% of the employment gains made by 1988 occurred in just 735 companies, or .003% of the group. And all of those 735 companies had more than 100 employees from the start. Moreover, adds Harrison, the employees of big companies “enjoy on average systematically higher wages, better benefits, and greater job security than their counterparts in small firms.” And what of the notion that small companies produce more innovative products? Such claims, Harrison finds, are based on new product announcements in trade journals. But small companies, which are often seeking venture

**H**arrison pillories  
the popular notion  
that small companies  
create most of the  
new jobs in the U.S.



capital, are more likely than large companies to run such advertisements—and what constitutes a new product is always a source of debate. The most advanced equipment, Harrison notes, is more likely to be found in large plants than small.

The argument is more than academic. The notion that small business drives job growth and innovation has inspired countless economic-development campaigns nationwide that involve building business parks and incubators for en-

trepreneurs. Instead, Harrison writes, government should address issues that are also of importance to large corporations, including infrastructure improvement, workforce training, and “the encouragement of collaboration among rivals.”

In such collaboration, Harrison believes, lies the salvation of giant corporations. Rocked by the economic upheaval of the early 1980s, he notes, businesses in Europe—and to some extent, businesses in the U.S.—have embraced a new form of organization defined by the network. While slimming down and focusing on what they do best, companies are drawing closer to customers and suppliers to slash costs, shorten design times, boost quality, and innovate more quickly. Big companies are also working together more closely, both to learn from one another and to reduce the costs of entering new markets and creating leading-edge products. Witness GM’s Fremont (Calif.) joint venture with Toyota Motor Co., which is turning out Geo Prisms and

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Harrison cites Italy's Benetton Group as a prime example of the network work. His account of how the clothing maker organizes output into design, high-tech manufacturing, and unskilled piecework makes fascinating reading. In addition, Harrison provides one of the most lucid, straightforward descriptions of the *keiretsu* that I've yet read.

Despite his upbeat assessment of the future of large enterprises, Harrison is anything but optimistic about the U.S. While a few companies—notably Ford, Chrysler, and Motorola—have adopted the new model, he writes, "the reality is that too many companies still do not seem to get the message." Instead, they're fixated on quarterly profits and are too distrustful to cooperate with other companies. So, they "take the low road" to cost-cutting—slashing wages and jobs, not boosting productivity and modernizing processes.

The spread of business networks is not without problems, Harrison also points out. He reasons, for example, that networks will exacerbate wage inequa-

**Wage inequality threatens to  
rip America's social fabric,  
says Harrison—but he offers  
only vague solutions**

ity. Workers at large companies, who are in such core jobs as design and high-skilled manufacturing, will pull in good incomes, while less skilled workers in largely nonunion factories and offices or subcontractors, won't do as well. This "labor market dualism," Harrison writes, threatens to rip America's social fabric by dividing the country into the working poor and the relatively well-off.

It's no surprise that Harrison, co-author with Barry Bluestone of 1982's *The Deindustrialization of America*, which said American manufacturing was declining largely because companies were moving output overseas seeking cheaper labor, should focus on the problem of rising wage inequality. But the weakest part of *Lean and Mean* is his discussion of how to deal with it. He calls for increased unionization, which might work, but he never tackles the question of how to bring that about. And Harrison often lapses into academic prose. But those are minor failings in a book that so ably challenges the accepted wisdom.

BY KEVIN KELLY

*Kelly covers the changing nature of manufacturing from the Midwest.*

## BECAUSE OF INERTIA, THE DOLLAR WILL KEEP FALLING

RUDI DORNBUSCH



What's needed is intervention that puts a floor under the dollar. The best bet: Raising U.S. interest rates. Fed funds would have to be pushed up by 75 or even 100 basis points to make a major difference

**E**arly this year, the prospect of a steep dollar rise was very good. Now the dollar is in the tank: It has reached an all-time low against the yen and is on the way to a low against the mark.

Four factors determine the performance of a currency: an economy's external balance, the relative cyclical position of a country's economy, the relative level of interest rates, and general investor appeal. Of course, most of the time these factors don't all point in the same direction. That makes for large swings in perception: The same interest-rate level that one day seems high and rewarding is deemed the next day to barely compensate for risks.

Fundamentals—deficits, cyclical positions, interest rates—all can be enlisted to explain a currency's strength, especially after the fact. But they must be given shifting weights to help explain currency movements. Moreover, market psychology plays an important role. Surveys of investor expectations reveal that foreign-exchange markets systematically extrapolate recent trends—a currency that has been depreciating is expected to continue depreciating over the near term. Over longer horizons it is expected to make a comeback. The dollar is on one of these trips, driven down by the general assumption that there is nothing to keep it up—neither fundamentals, including Federal Reserve interest-rate hikes, nor strong intervention.

Exchange-rate movements can get out of hand, with speculative opinion as an important driving force. The best example is the U.S. dollar in the 1980s: From the late 1970s to 1985, the dollar rose against the mark by nearly 100%. The increased investor appeal of early Reagan vs. late Carter, recovery from a deep recession, and high interest rates made the dollar a hot asset. Then, overreaching itself, the dollar started a slide against the mark that continued for the next five years.

**NO RESTRAINT.** The reason there was a good prospect for a dollar rally earlier this year was that Europe's economies were weak and Japan was mired in a prolonged slump. In the U.S., a boom seemed to emerge with rising interest rates on the horizon. But by now, U.S. growth is old news and can't carry the dollar any further. In Germany, the mighty mark is on the rise. Angst has given way to outright euphoria, pointing to a possible reelection of Helmut Kohl's coalition government. In Japan, the slump has yielded to consumer spending. Growth is around the corner. Interest-rate cuts abroad are unlikely now, while in the U.S., rate increases are slow to come.

On the interest-rate front, the dollar has

received little support at home. The Clinton Administration has come out repeatedly against higher interest rates even though the economy is now at 6%, which in the U.S. is reckoned as full employment. Congress has cautioned the Fed against interest-rate rises. Moreover, although fiscal restraint would be highly appropriate, it has been ruled out on political grounds.

Dollar support thus has eroded both in terms of interest-rate differentials and the cyclical position. That leaves the large U.S. current-account deficit as a focal point—more so as it widens once again under the impact of a boom. Moreover, the rise of the yen against the dollar is also appropriate in light of the evolution of U.S.-Japan trade talks. It's now clear the Administration will settle for anything, anything at all, just to get a deal. Anything at all means practically nothing. Thus, if a trade opening is not about to happen in this decade, more work needs to be done through the exchange rate to correct Japan's imbalances. One more reason then for a strong yen.

**TEPID RESPONSE.** The remaining factor—investor enthusiasm—gives the dollar little support. The President is weakened by his personal problems, by being caught up in a health-care agenda, by a foreign-policy posture that hardly inspires confidence. None of this offers comfort to investors. And if these factors weren't enough, the tepid response of the Administration to the dollar slide—halfhearted intervention—has done the rest.

What is needed is a forceful, coordinated intervention that puts a floor under the dollar. The only way to get there is to accompany the move with higher U.S. interest rates. Fed funds would have to be pushed up by 75 or even 100 basis points to make a major difference. Much of the work must come from the New York Fed, but some extra help from Germany and Japan would do well to both lock in the dollar and help ease long-term bond and equity markets. Neither in the U.S. nor abroad is there any enthusiasm to make currency rates the central focus of monetary policy. That leaves the dollar on the skid.

No one wants to be blindsided by another move of a currency that is selling off. Just as in the 1980s, we may get an overshooting situation where exchange rates move very far away from fundamentals. Too much of a dollar depreciation will push the U.S. beyond full employment and into early, unnecessary inflation. Abroad, it may put in question recoveries that are just emerging. Don't the currency speculators know all that? On the evidence of the 1980s, probably not.



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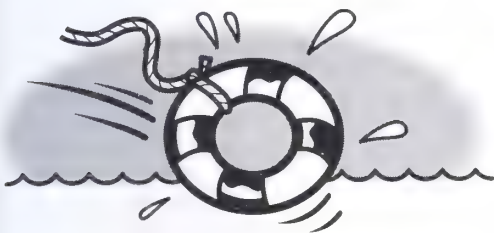


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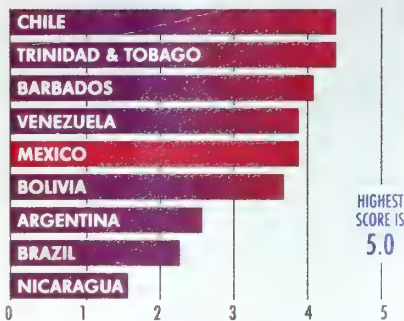
BY PAUL MAGNUSSON

## WITH LATIN AMERICA THRIVING, NAFTA MIGHT KEEP MARCHING SOUTH

The 1980s were not kind to Latin American economies. Debt crises, ballooning inflation, and slow growth were endemic throughout much of Central and South America. The Caribbean didn't do much better. But in the 1990s, Latin America has been one of the world's fastest-growing regions.

Economists Gary C. Hufbauer and Jeffrey J. Schott of the Institute for International Economics in a new study use seven criteria to gauge the preparedness of countries to maintain free-trade and open-investment policies—the sort that turned around Mexico's economic fortunes and eventually led to

### WHAT LATIN AMERICAN NATIONS ARE READY FOR NAFTA?



► COUNTRY READINESS PERFORMANCE SCORE\*

\*PERFORMANCE SCORE BASED ON MEASURES OF PRICE STABILITY, CURRENCY STABILITY, BUDGET DISCIPLINE, EXTERNAL DEBT, TRADE TAXES, MARKET-ORIENTED POLICIES, AND DEMOCRACY

SOURCE: GARY C. HUFBAUER AND JEFFREY J. SCHOTT

last year's North American Free Trade Agreement (NAFTA) with the U.S. and Canada. Their measures include price stability, budget discipline, market-oriented policies, and a functioning democracy. The key finding: Chile, Venezuela, Barbados, and Trinidad and Tobago all rank equally or higher on a scale of "readiness criteria" than did Mexico at the start of NAFTA talks in 1990. Close behind are Paraguay, Uruguay, Bolivia, Colombia, and Jamaica. Brazil, with high rates of inflation and indebtedness, is rated a poor risk (chart).

Because of the region's mostly favorable economics, the pair recommend expanding NAFTA throughout Latin America and the Caribbean rather than negotiating separate bilateral agreements, which take time and could add a confusing set of divergent free-trade rules. And for the U.S., the economists

foresee substantial benefits from a Western Hemisphere Free Trade Agreement (WHFTA): an increase in average annual U.S. exports from \$24 billion during the 1989-91 period to \$106 billion in 2002, expressed in constant dollars. Without WHFTA, exports would still climb to \$70 billion, reflecting the region's improved economic outlook.

There would be one downside from WHFTA: In a worst-case scenario, 6.7 million workers in the U.S. would see their wages decline by 8.7%. Even without the WHFTA, however, this group—6% of the U.S. workforce—stands to lose 3.7% in wages because of increasing international competition. The U.S. workforce as a whole, however, would benefit from a slight increase in jobs and wages as a result of the hemispheric trade pact.

## CLINTON'S '96 HOPES MAY JUST RIDE ON REGULATION

Economists have teamed up with political scientists in the past to correlate an incumbent President's reelection prospects to the rate of growth in the economy. Not surprisingly, voters tend to reelect Presidents or their party's successors when times are good in the 12 months before the election and dismiss them when times are bad. Remember Gerald Ford's untimely recession, Jimmy Carter's runaway inflation, and George Bush's tortoiselike recovery?

Now, two Brookings Institution economists, Clifford M. Winston and Robert W. Crandall, link Presidential elections to federal regulatory policies, whose cost to business now exceeds \$500 billion a year. Over the last half-century, voters have rewarded the incumbent party for expanding social regulation but punished it for increasing economic regulation. The most common social regulations are health and safety codes. Economic regulation includes the control of rates companies can charge and various barriers to competition.

The economists used the number of federal employees performing regulatory tasks as the best index for judging regulatory activity. The researchers found that a 1% increase in social regulatory employment increased the incumbent party's share of the vote by 0.93%, while a 1% increase in economic regulatory employment lowered it by 0.78%. The implications for the current Administration appear positive. Under Clinton, the government is curtailing economic regulatory activities while expanding environmental and health regulations.

## THE U.S. RECOVERY COULD GIVE INFLATION THE SLIP

Just as generals tend to plan for the last war, economists tend to predict the previous business cycle. Both base their predictions on historical patterns. Right now, for example, economists persist in scanning the horizon for inflation, the traditional strangler of a recovery. But this time the expansion, which began in March, 1991, is turning out to be the most unusual of postwar recoveries, says David D. Hale, chief economist at Kemper Securities. And the inflation watch may be premature.

Among its unique elements, this expansion took longer to gain momentum and is concentrated more heavily in equipment investment than any other. Equipment purchases account for more than 30% of total real growth in gross domestic product, vs. the usual 10% to 15% at this point in a recovery. In addition, far more of the economy's GDP growth comes from the surge in productivity—90%—than from the increase in the number of hours worked. Little wonder that this recovery has enjoyed the lowest annual inflation levels since the 1960s—2.8% on the consumer price index, vs. a postwar average of 3.6%.

## THE DEFICIT HASN'T VANISHED, BUT IT SURE HAS LOST WEIGHT

The federal budget deficit is coming down even faster than previously predicted, according to the Office of Management & Budget. The deficit for the current fiscal year will be \$220 billion, \$15 billion below what was projected last February and \$85 billion below the estimate made before passage of President Clinton's five-year budget plan last fall. Thanks to an expanding economy, the trend is expected to continue, pushing the deficit down to \$16 billion in fiscal 1995.

Indeed, on top of the nearly \$500 billion the White House budget will already have trimmed from the deficit by 1998, higher revenues from the economic expansion and lower spending on entitlements such as unemployment compensation could pare some \$200 billion. And federal employment will have been reduced by at least 272,000, to about 1.9 million by 1999—the lowest level since the Kennedy Administration.



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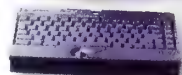
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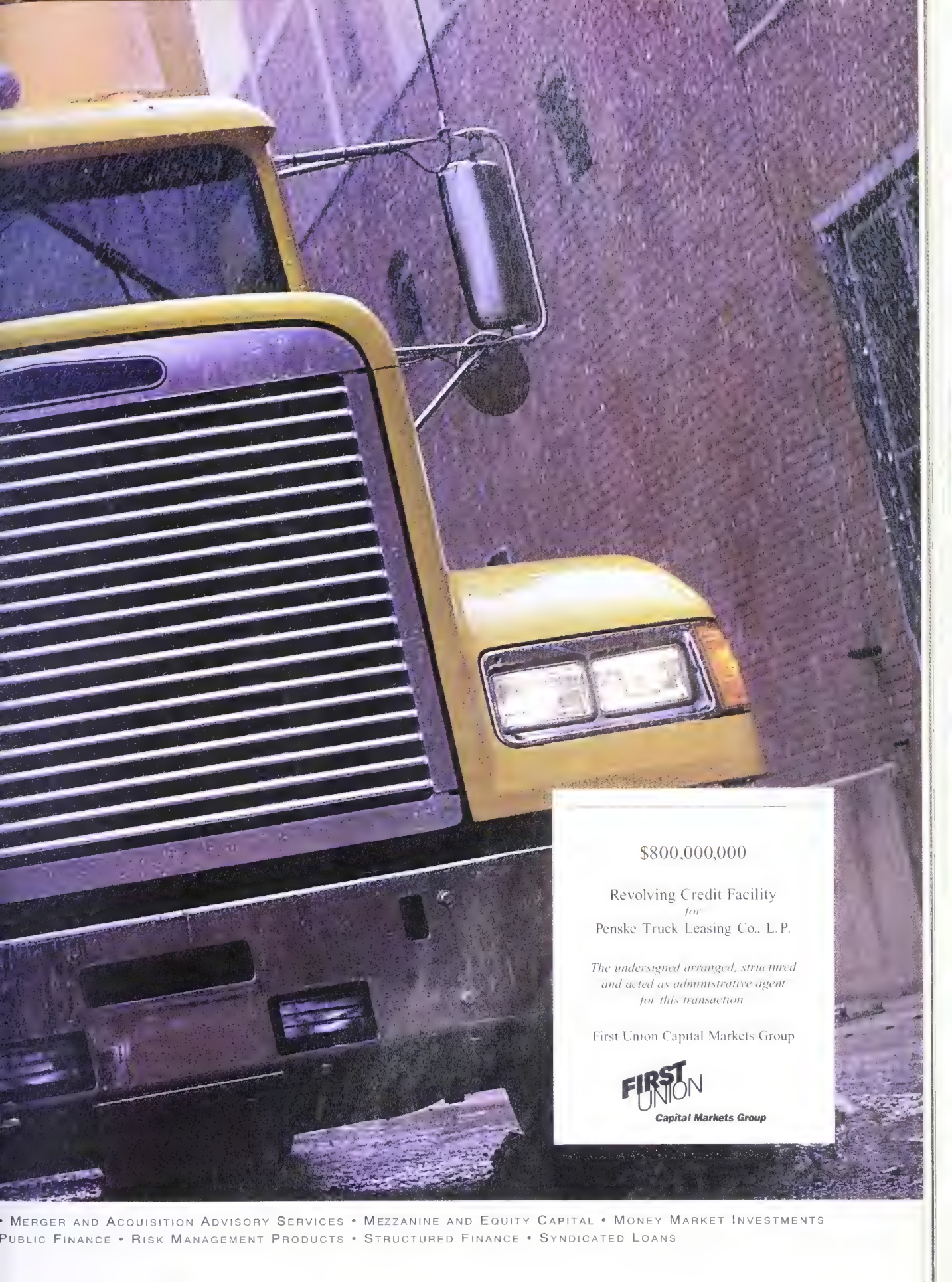
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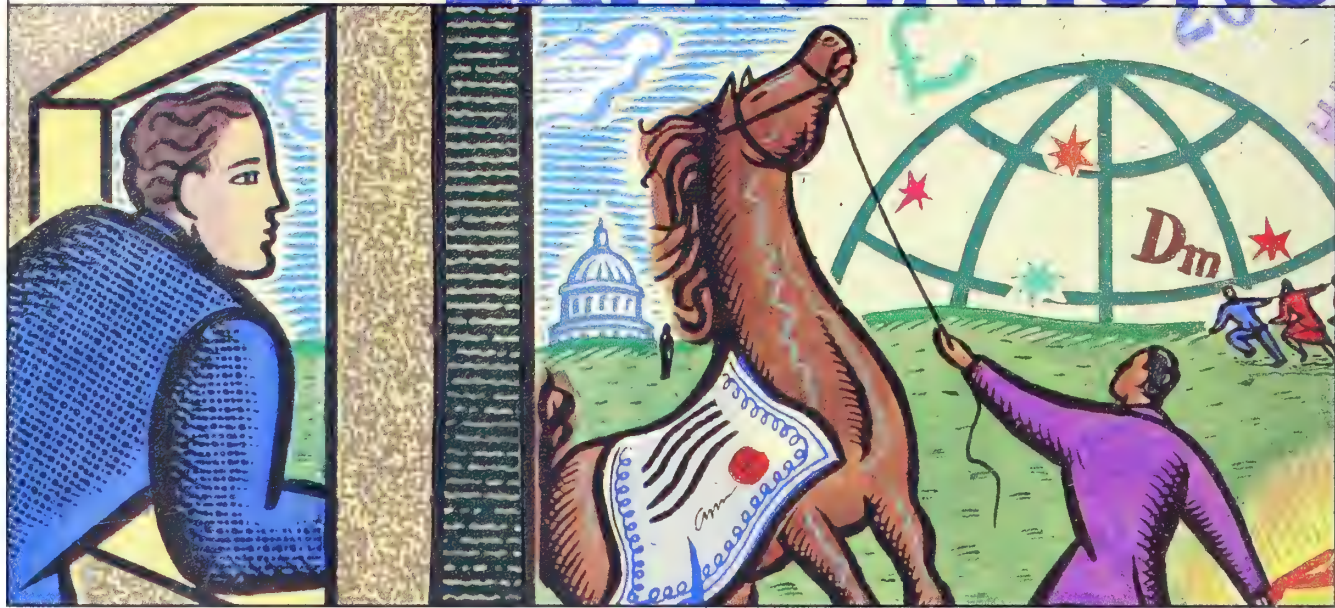
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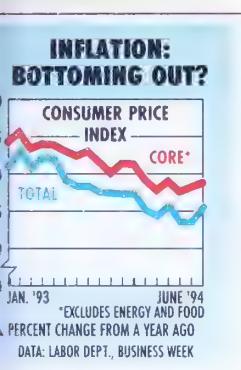
**BusinessWeek**

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## THE PRESSURES ARE RISING, BUT INFLATION WON'T START BOILING

If history is a guide, the U.S. inflation outlook has reached a crossroads. The economy is thriving, fueling rapid job growth. Unemployment is down to levels that usually signal tight labor markets and bigger pay increases. And because cyclical gains in service productivity have about played out, unit labor costs in that key sector are rising faster, squeezing profit margins, and fueling companies' desire to raise prices. Typically, the economy could be set to bounce down the bumpy road toward higher inflation.

Don't buckle your seat belt just yet. True, the four-year decline in inflation appears to be bottoming out (chart). But unlike this point in past business cycles, there remain many forces holding prices down as there are trying to push them higher. The upshot: Look for only a slight pickup in inflation in the coming year.



Investment is significantly higher than government measurements show (page 68). If so, the economy has more room to grow without generating inflation than the current readings on joblessness and capacity utilization suggest.

### IT'S NOW CRUNCH TIME AT THE FED

That much is crystal clear in manufacturing where, unlike services, productivity gains are translating into falling unit labor costs. That's why goods inflation is the least of the economy's worries, as the June producer price index indicates.

Finished goods prices were flat last month after edging lower in both April and May, as price declines for tobacco products, appliances, and drugs offset increases in energy, including a 1.5% jump in gasoline prices. Excluding energy and food, the core PPI dipped 0.1%. During the past year, finished-goods inflation is zero, and core inflation is barely positive at 0.6%.

The effect of low inflation in goods prices is also apparent in the consumer price index. The CPI rose 0.3% in

June, and the core index also was up 0.3%, about as expected. Annual consumer inflation stands at 2.5%, but that combines a 1.6% rate for goods and a 3.2% pace for services.

June prices were generally well behaved for both goods and services, partly because of continued moderation in the costs of housing and medical care. Energy prices were up only 0.1%, but they will probably rise much faster in coming months, since the nearly \$6-per-barrel increase in crude oil prices since March has not yet shown up in gasoline prices at the pump.

The tame June price indexes give the Federal Reserve some breathing room to decide on its next move on interest rates, but policymakers cannot ignore the data that suggest it is crunch time for holding back inflation. Key Fed officials are sympathetic to the enhanced-productivity argument, but strong labor markets in June will probably elicit at least a quarter-point hike in the federal funds rate at the Aug. 17 policy meeting.

Fed Chairman Alan Greenspan might offer some hints on the Fed's thinking when he goes to Capitol Hill on July 20 to deliver his semiannual report on monetary policy, including the Fed's latest forecasts for growth and inflation, along with its targets for money growth.

### DID THE WORLD CUP KICK UP PAYROLLS?

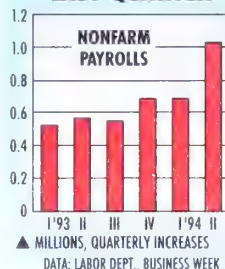
The financial markets are clamoring for another rate hike in the wake of the unexpectedly robust report on the June labor markets, a sign that the braking effect of past rate hikes is not yet evident.

Nonfarm payrolls jumped by 379,000 last month, for a total of just over 1 million new slots in the second quarter and 1.7 million so far this year (chart). And the jobless rate remained at a low 6%.

True, special factors boosted June payrolls. There were five weeks between the May and June surveys instead of the usual four. The Labor Dept.'s estimate of jobs created by new businesses was a large 132,000. An extended school year—to make up for time lost during the winter—kept many teachers on the job. And the big gain in service jobs was linked to increased tourism generated by the World Cup.

Nevertheless, jobs are growing at the fastest pace since

### A MILLION NEW JOBS LAST QUARTER

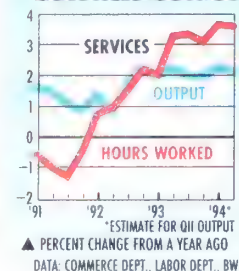




# Business Outlook

1987 and in the second quarter, total hours worked rose at a 6.5% annual rate, the largest increase in more than a decade. What the data are saying is that the cyclical gains in productivity are waning. After all, for the past three years businesses have been working their existing employees longer hours in order to produce more output.

## SERVICE WORK TIME OUTPACES OUTPUT



Now, those productivity gains are pretty much exhausted, so companies are adding employees to meet demand. However, new labor is near the bottom of the learning curve, causing a temporary slowdown in output per hour worked.

Nowhere is that clearer than in services, which generate half of the economy's output and more than three-fourths of its

jobs. Since early 1993, hours worked in the service sector have outpaced output (chart), which has pushed up the sector's total wage bill while cutting into productivity. The result: Unit labor costs for service industries appear to have surged last quarter.

Since companies have little room to raise prices, profit margins are probably taking it on the chin. For example, retailers' sales margins slipped in the first quarter. As a result, companies can either raise prices or cut back on hiring. But remember, these are the austere '90s. It's more likely that a slower pace of hiring will prevail.

## HIGH TECH PAYS OFF IN LOWER COSTS

In fact, the rise in employment so far this year has not lifted pay very sharply. The average hourly wage in the nonfarm sector slipped 1¢, to \$11.08, in June. Hours also fell, by 12 minutes, to 34.6 hours, causing a 0.7% drop in weekly pay. Still, because hiring was so great, personal income, and thus consumer spending, likely continued to grow last month.

Better growth in jobs and earnings appear to be the fuel for the recently explosive growth in consumer installment debt. Outstanding balances on auto loans and credit cards, for example, jumped \$10.4 billion in May, and they have skyrocketed by \$31.9 billion since February, the fastest three-month growth on record.

Factory workers have enjoyed bigger wage increases than their service colleagues. In the second quarter, factory pay was up 2.7% from a year ago, compared to the 2.5% advance for service workers (chart). But unlike the service sector, unit labor costs in manufacturing are still on the decline.

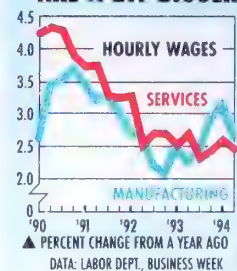
Moreover, two factors argue against any sustained upward pressure on wages or unit labor costs. First, the perception that more jobs are available will bring out those jobseekers who are now on the labor sidelines.

Indeed, the government reported that 526,000 people dropped out of the labor force last month, even as the adult population grew by 183,000. During the past 12 months, the labor force has edged up a mere 0.2%, while the working-age population has risen 1%. That just doesn't make sense. The split suggests that the low unemployment rate overstates the tightness of the labor markets.

More important, because more intensive and smarter use of technology is raising the long-term trend in productivity, workers hired now will be more efficient by year end. That will take some pressure off unit labor costs.

But even with today's low inflation, it is clear that the U.S. economy is at a crucial point. The price pressure from demand and labor are set to clash with the forces of better productivity and foreign competition. The most likely result: a standoff, with only a small rise in inflation

## WHERE PAY RAISES ARE A BIT BIGGER



## THE WEEK AHEAD

### TRADE BALANCE

*Tuesday, July 19, 8:30 a.m.*

The foreign trade deficit for goods and services is projected to narrow slightly to \$8 billion in May, from \$8.4 billion in April. That's the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. For goods alone, however, the trade deficit probably widened to \$12.4 billion in May, from \$12 billion in April. Exports, which fell 4.2% in April, rebounded slightly, while imports continued to increase for the fifth consecutive month. If the forecast proves right, the foreign trade sector, which robbed more than one percentage point from growth in

the first quarter, could have been a drag in the second quarter as well.

### HOUSING STARTS

*Wednesday, July 20, 8:30 a.m.*

Housing starts probably dipped to an annual rate of 1.48 million in June, from a 1.51 million pace in May. That's suggested by the decline in total hours worked in the construction industry last month, as well as the falloff in mortgage applications to buy a home.

### INITIAL UNEMPLOYMENT CLAIMS

*Thursday, July 21, 8:30 a.m.*

New claims for unemployment benefits likely stood at 365,000 for the week ended July 16, up from 332,000 for the week

ended July 2. Some bounceback is expected because Independence Day caused state offices to close during the previous week.

### FEDERAL BUDGET

*Friday, July 22*

The MMS forecast calls for the U.S. Treasury to post a \$12.5 billion surplus in June, when quarterly taxes are paid. That's on par with the \$11 billion surplus of June, 1993. In general, increased receipts are pushing down the federal deficit so far in fiscal 1994, which ends in September. Given its pace in the first eight months, the deficit could fall to near \$200 billion in fiscal 1994, from \$250 billion in 1993.



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JULY 25, 1994

# COMCAST PLAYS SPOILER

## IT QUASHED QVC-CBS. WHAT'S NEXT FOR DILLER?

**B**arry Diller had long told Brian L. Roberts that cable operator Comcast Corp. needed to move aggressively into programming.

But this wasn't quite what Diller had in mind.

On July 12, Roberts broke the news to Diller that he had launched a takeover bid for Diller's company, QVC Inc. Roberts insists that the hastily arranged meeting at New Jersey's Teterboro Airport was cordial. The two executives even shared a car into Manhattan afterward. Yet Comcast's stunning move means turmoil for Diller and everyone else involved in QVC's complex web of business relationships.

First, there is the home-shopping channel's proposed merger with CBS. Laurence A. Tisch, the chairman of CBS Inc., scotched that deal within hours of being notified about Comcast's \$2.2 billion tender offer and one day before the CBS board was scheduled to ratify its merger with QVC. Instead, CBS announced on July 13 that it will buy back 3.5 million shares for a total of \$1.1 billion. Tisch, who owns 3 million CBS shares through his Loews Corp., plans to tender all of his stock to the offer. That means the 71-year-old investor will cash out at least \$220 million of his CBS stake, even though he hasn't resolved the issue of who should succeed him.

**NO MUSCLE.** Then there is Diller, who will probably be out of a job if Comcast ends up with QVC. Executives close to Diller say he is likely to reject Comcast's offer to stay on as chairman of the operation. For consolation, Diller can dwell on his own share of the Comcast buyout: In just 18 months, he made an estimated \$75 million pretax profit on his initial \$25 million investment.

But without QVC's muscular balance sheet backing him, it will be harder for the 52-year-old programming whiz to strike the kind of megadeal he has craved since leaving Rupert Murdoch's Fox Broadcasting Co. in 1992.

Finally, there is Roberts, who is betting that his family-controlled cable company can acquire and successfully operate QVC without Diller. Coming a month after Comcast agreed to put down \$1.2 billion for the U.S. cable systems of Canada's Maclean Hunter Ltd., the QVC deal will stretch the nation's third-largest cable operator to the limit.

Comcast owns 15% of QVC, so it needs to raise about \$1.86 billion to buy out Diller and other QVC shareholders. Roberts says the company will sell assets, such as its 20% stake in the Heritage cable company, to help pay for the cash-and-stock offer. Analysts say Comcast may also renegotiate its stake in Nextel Communications Inc., a cellular-phone provider. And Roberts may take on a partner, such as a Baby Bell, for either the QVC or Maclean Hunter deal.

Senior Vice-President John R. Alchin says that while Comcast's total debt will jump from \$3.8 billion to \$6 billion (table), QVC's \$125 million in annual cash flow will allow it to maintain its current debt-to-cash-flow ratio.

Most analysts believe Comcast can pull off the deal. But Jessica Reif of Oppenheimer & Co. says that with the new debt from QVC, Roberts may not be able to afford his goal of boosting Comcast's cable subscribers to 5 million. "Is this the best use of his cash?" she asks.

For Roberts, such a prospect is still more palatable than seeing Comcast's 15% stake become a 4.9% stake in a combined CBS-QVC. "The sale of QVC to



**Roberts' move is risky—but he couldn't allow Comcast to become a voiceless investor in QVC-CBS**

## DILLER DESCENDING, ROBERTS RISING

Comcast Corp.'s surprise \$2.2 billion bid for QVC leaves Barry Diller out of a CBS merger—and probably without a job. Where would it lead Comcast? Almost doubled in size with a mountain of new debt





**CONTROL ROOM AT QVC**

CBS, which this was clearly going to be, would have made us a disenfranchised minority investor," says Roberts. He points out that Comcast would have been barred from a board seat at CBS. And government regulations would have prohibited Comcast from ever boosting its stake above 5%.

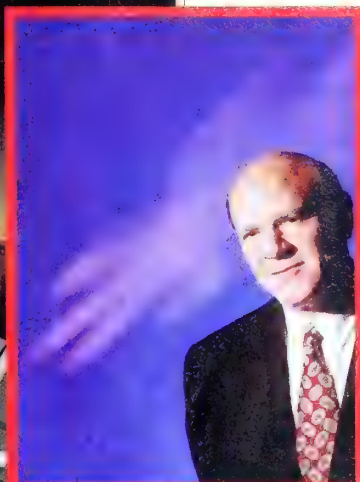
**BIG LEAGUES.** To understand the motive behind Comcast's stunning move, consider the lofty ambitions of 34-year-old Brian Roberts. The Roberts family controls 78% of Comcast's voting stock. And Ralph J. Roberts, who founded the Philadelphia-based company, fully supports his son's efforts to vault Comcast into the major leagues of cable programmers. It was Brian who lured Diller to QVC in December, 1992—betting that Diller would do the job.

Instead, Diller used Comcast's clout to

advance his own agenda. First, he secured \$500 million from Comcast to support QVC's bid for Paramount Communications Inc. When that failed, Diller struck the CBS merger deal—over the strident objections of Roberts. Comcast didn't want QVC to veer from cable to broadcasting, and the relationship between Diller and Roberts began to fray. Days after Diller unveiled his CBS deal, Roberts hired Steven Rattner, a banker at Lazard Frères & Co., to structure a tender offer for QVC.

Roberts won't criticize Diller publicly. But privately, people close to both executives say the two have steadily drifted apart. Diller ended up paying little attention to QVC's core retailing business, while Roberts remains excited by home shopping.

In many ways, the Comcast bid represents the final break in the combustible partnership of Diller, Roberts, and Tele-Communications Inc. President John C. Malone. Liberty Media Corp., which Malone also controls, still owns 16.2% of QVC. And until several months ago, Malone was one of three voting shareholders of QVC, along with Diller and Comcast. After Malone sprang his failed merger of TCI and Bell Atlantic



**Diller used Comcast's cash to advance his own plans. Now, he's likely to be a man without a company**

#### **QVC & COMCAST, COMBINED**

**TOTAL REVENUES**

**\$3 billion**

**OPERATING CASH FLOW**

**\$920 million**

**TOTAL DEBT**

**\$6 billion**

**NUMBER OF CABLE SUBSCRIBERS**

**3.5 million**

#### **OTHER COMCAST PROPERTIES**

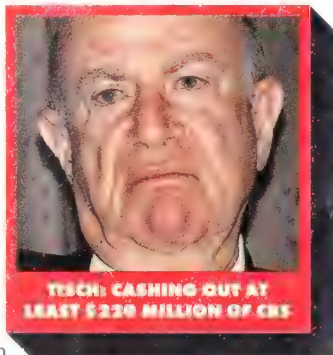
- ▶ 300,000 cellular telephone customers through an interest in Metrophone
- ▶ 13% of Nextel Communications, an alternative cellular provider
- ▶ 17.5% owner of Teleport, a fiber-optic system in 11 cities
- ▶ Small equity stakes in E! Entertainment Television and Turner Broadcasting System



# Top of the News

Corp., though, he withdrew from his voting position in QVC. Malone's deal caught Diller and Roberts—who were immersed in the Paramount takeover—by surprise. Similarly, Roberts didn't inform Malone of his plans this time. "This is just tit for tat," says Oppenheimer's Reif.

Still unclear—but the subject of endless speculation—is Malone's next step. Executives close to him say he wanted the CBS deal to go through. Analysts don't expect him to mount a rival bid for QVC because of antitrust concerns. Still, some observers think Malone may hold out for a better price for his QVC shares. At \$44 per share, Comcast's offer is a scant premium over the stock's current price of \$42.



Also unclear is Diller's next move. With \$75 million in his QVC profits, Diller could very well ally with someone else to mount another bid for CBS. By spending \$1.1 billion on a stock buyback, followed by a five-for-one share split, Tisch is clearly trying to make the Tiffany Network an easy acquisition—reducing CBS's share price and taking the \$1.1 billion off its balance sheet.

Media executives say Diller will get plenty of offers to do just that: "If you're Barry Diller, you've got almost \$100 million in your pocket, and everybody already knows CBS wants you, who's not going to make you a proposal?" asks Christopher Dixon, a PaineWebber analyst.

Observers say Tisch had better hope for such a scenario. In a statement Tisch pledges that "CBS will remain aggressive, future-oriented, and highly competitive." But analysts agree that the failed QVC merger badly hurts CBS since it lays bare the network's strategic drift. Executives close to CBS say its employees are deeply demoralized.

They may not have to wait long for better news. Industry sources say Walt Disney Co. and Turner Broadcasting System Inc. are both considering fresh bids for CBS. So even as media watchers sift through the collapse of the CBS-QVC merger, another round of deals may be in the works. In today's frenzied media business, tectonic shifts happen more frequently than changes in the television ratings race.

*By Mark Landler in New York, with Ronald Grover in Los Angeles and Joseph Weber in Philadelphia*

## HERB ALLEN'S MEDIA-FEST: SUDDENLY, A STAR IS UNBORN

**T**alk about bad timing. On July 12, Herbert A. Allen was finishing preparations for his annual media conference in Sun Valley, Idaho. It was shaping up as another triumph for the New York investment banker. William H. Gates III of Microsoft Corp. was set to speak, as was cable titan John C. Malone. For the finale, Allen had lined up his client Barry Diller, fresh from a spectacular merger of QVC Inc. with CBS Inc.

Then, Allen got word that Comcast Corp. had launched a \$2.2 billion tender offer for QVC. Comcast President Brian L. Roberts, a key shareholder of QVC, bitterly opposed the CBS deal. And by offering to buy the cable shopping service outright, Roberts threw a hand grenade into Diller's plans. He also dealt a blow to Allen, just as the courtly banker was set to play host to more than 100 of the most powerful people in media.

**SCHMOOZERS.** Well, at least this year's conference will be memorable. Allen, who tries to keep the meeting private, won't comment on the odd turn of events. But sources close to his bank, Allen & Co., say the focus will likely shift from a victory celebration for Diller to a career-counseling session. "There are a lot of people here that

Barry can talk to," says one executive.

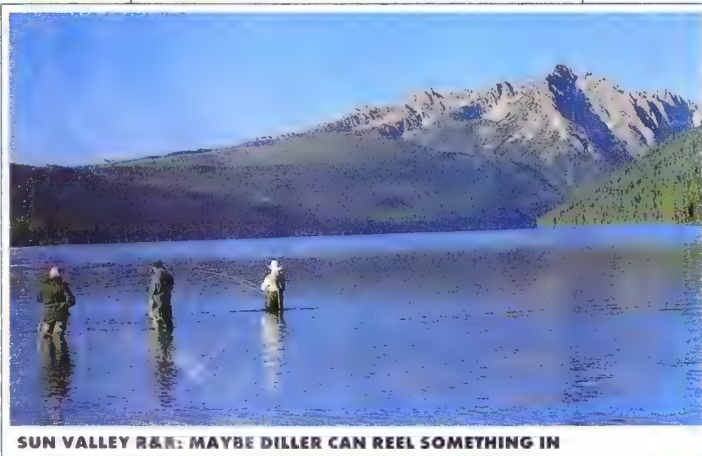
If the current frenzy of media deal-making has an epicenter, it has to be the Sun Valley Lodge, a landmark hotel built by W. Averell Harriman, where Allen's high-powered guests are staying. Previous get-togethers have often led to deals. Last year, executives of Turner Broadcasting System

corporate version of Irving "Swift" Lazar's star-studded Oscar parties: Rupert Murdoch, Michael Eisner, Jeffrey Katzenberg, Gerald Levin, Sumner Redstone, Frank Biondi Jr., Michael Ovitz, David Geffen, Roberto Goizueta, Warren Buffett, and Henry Kravis. All of them plan to attend.

What's more, Allen strives to keep the ambience casual and family-oriented. Guests bring their spouses and children. After four to five company presentations each morning, they devote the afternoons to rafting, fly-fishing, tennis, or golf. Appropriately loosened up, the participants can get down to some serious schmoozing. Allen does his part to grease the wheels: "Herbert is a terrific deal-maker," says Viacom Chairman Redstone, "so he can put certain groups of people together."

Even before Comcast's bombshell, the conference had a ripe agenda. Thomas S. Murphy spoke about the future of his TV network, Capital Cities/ABC Inc. Now, though, Cap Cities will probably have to wait for its moment in the sun until after the CBS-Diller saga is resolved. Herb Allen has other things on his mind.

*By Mark Landler in New York, with Ronald Grover in Los Angeles*



Inc. began chatting with the principals of Castle Rock Entertainment. Scarcely a month later, Turner bought the film studio for \$261 million in cash and assumed debt. A year earlier, director Ron Howard and producer Brian Grazer floated the idea of selling their stake in Imagine Entertainment. MCA Inc. later bought them out.

Why is Allen's conference so potent? For starters, his guest list reads like a



# WILL THE PEPSI BRASS BE DRINKING HEMLOCK?

With earnings flat and the food chains besieged, investors want a new vision

As a merciless heat wave gripped their purchase (N.Y.) headquarters, several hundred PepsiCo Inc. executives kept cool at the company's bi-annual management conference at Lake George, N.Y., the week of July 4. But between the early-morning breakfasts and evening cabarets, anxiety was running high. There was talk of Pepsi's mediocre earnings—and, too, of layoffs and high-level executive shuffling.

The scuttlebutt has been mounting since June 9, when Pepsi warned Wall Street that second-quarter earnings, due out July 19, would be flat with last year's 53¢ per share. For Pepsi, which had declared a goal of 15% earnings growth, the news was practically heresy. Its stock dropped 9%, to 31½, touching off declines in other consumer-goods stocks. Pepsi "truly spooked investors," says Emanuel Goldman, a PaineWebber Inc. analyst.

**PRIVATE-LABEL SQUEEZE.** Rumors of heads rolling soon followed. PepsiCo Chairman Wayne Calloway, went one, would be replaced by former Philip Morris Cos. CEO Michael A. Miles. Craig Weatherup, CEO of Pepsi-Cola Co., the company's flagship U.S. beverage division, and John M. Cranor III, CEO of KFC, were said to be out. And Jeff Campbell, Pepsi-Cola's senior vice-president for brand development, was rumored to be leaving to become a business school dean.

So far, only Campbell's departure has



**WEATHERUP: PEPSI'S PROBLEMS HAVE PROMPTED  
WIDESPREAD RUMORS OF EXECUTIVE CHANGES**

actually transpired: The marketing executive resigned July 11, replaced by Brian Swette, a 40-year-old Pepsi fast-tracker. Meanwhile, Mike Miles says he's not making any moves until September, and spokespersons for Calloway, Cranor, and Weatherup denied those executives are departing. But in the face of flat earnings and mature markets, investors expect more changes.

What's gone wrong at the onetime perennial growth machine? Earnings at Pepsi's three restaurant chains—Pizza Hut, KFC, and Taco Bell—which made up 25% of the company's \$3 billion in profits in 1993—have taken a beating. International operations are sluggish. And the core beverage division is being squeezed by private-label rivals (table).

In many ways, Pizza Hut embodies the worst of Pepsi's problems. Hit at once by fierce price competition from take-out rivals Little Caesar Enterprises Inc. and Domino's Pizza Inc. and pressure from value-oriented family chains, Pizza Hut's operating profits dropped

15% in the first half. Even as a \$60 million marketing push built its oversized Bigfoot pizza into a hit, eat-in restaurant sales dropped to 25% of the chain's revenues from 33% in 1990.

Pizza Hut's response: adding sandwiches and pasta entrées to broaden its menu and introducing "value meals" to lower the average bill to \$5 a person from \$7. But "it's going to be an uphill struggle," says Piper Jaffray analyst Allan F. Hickok. And analysts also expect profits at KFC and Taco Bell to be flat for the quarter. KFC's new nonfried Rotisserie Gold chicken has brought in health-oriented customers but has cannibalized sales of the chain's other products.

**BEVERAGE BATTLEGROUND.** Pepsi's other big problem: Overseas beverage operations have expanded rapidly without generating big profit increases. Christopher A. Sinclair, who heads the international beverage and snacks unit, says: "I wouldn't rule out getting 80% of our operating income from overseas operations" someday, as Coke does. But Pepsi's international cola profits will be down 9% in the second quarter.

Meanwhile, Pepsi-Cola isn't exactly soaring in the U.S. Domestic beverage earnings will be up 8% this year, says Goldman, Sachs & Co.'s Marc Cohen, but the U.S. soft-drink business remains a battleground. Although Diet Pepsi supermarket sales jumped in June with its "freshness dating" campaign, the inroads made by the private-label sodas haven't allowed Pepsi—or Coke—to hike prices.

How does Pepsi calm investor jitters? Some hope that the board, which includes former General Motors boss Roger B. Smith and former IBM Chairman John F. Akers, both Establishment icons, will take steps to increase shareholder value. "The key question for Pepsi management is, what are they doing for shareholders?" says Mark Kastan, an analyst at J&W Seligman & Co., which recently sold off 1.6 million Pepsi shares but still holds 1.7 million. Historically, he says, Pepsi's "attitude is, 'Put out the numbers or find a new job.'" Just now, the numbers aren't going Pepsi's way.

*By Laura Zinn, with Jonathan Berry in New York and Greg Burns in Chicago*

## THE PEPSI DEGENERATION

| PEPSI-COLA                                                                                                                             | PIZZA HUT                                                                                                                    | KFC                                                                                                                                            | TACO BELL                                                                                                                       | FRITO-LAY                                                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| First-quarter profits dropped 4% at the flagship beverage company, thanks to competition from low-cost rivals and the Coke juggernaut. | Its delivery business is booming, but its eat-in restaurants have suffered from neglect. Now, same-store sales are drooping. | Rotisserie chicken helped the chain post 5% U.S. same-store sales increases in the first quarter. But operating margins remain under pressure. | The introduction of "value meals" in 1988 sparked big growth at the Mexicanesque chain. But same-store sales growth is slowing. | PepsiCo's one problem-free division. The \$5 billion operation owns more than 50% of the U.S. chip market and is making gains overseas. |





**IN A NEW YORK HOSPITAL: THE FIRST LADY'S PLAN IS STILL POPULAR WITH OLD-LINE COMPANIES THAT HAVE OLDER, UNIONIZED WORKERS**

## BUSINESS IS DEVELOPING A RESISTANCE TO HEALTH REFORM

Employers suspect that legislation will raise costs, not control them

**M**itchell J. Anderman believes fervently in health-care reform. As manager of employee benefits for oil giant Sun Co., he knows how hard it is to rein in health costs—and he's convinced Washington needs to help. But as he watches Congress at work, Anderman increasingly worries that the emerging legislation will create a system downright hostile to big companies. "It's looking more and more like the bills out there won't be fixable," Anderman frets. "Derailing the whole process may be the only course available."

Warning to the White House: Business' support for comprehensive health reform is dwindling. Employers are increasingly disgusted by legislation, written in Congress' four health committees, that piles on new payroll taxes, special breaks for small business, and restrictions on managed care. Fearing a legislative hodgepodge that will raise rather than control costs, Big Business is shifting from passive acceptance of broad reform to sullen resistance.

**HOLDING THE CENTER.** Corporate America's change of heart will further complicate matters for President Clinton and Capitol Hill leaders during health reform's most crucial phase. Democrats aren't bidding for business support as they try to pass health bills on the House and Senate floors by mid-August. Instead, they're taking a partisan course,

daring Republicans to block the popular notion of universal health coverage. But Democratic leaders admit that they can't pass a bill without their party's moderates. And opposition from business could weigh heavily on centrists.

Big employers' growing doubts about reform "aren't helpful," admits an Administration strategist. But the White House contends that its own core of business support is strong. Old-line companies such as Chrysler Corp. and Bethlehem Steel Corp. have backed Hillary Rodham Clinton's plan and will stick with almost any reform that promises to cut the cost of caring for aging, unionized workers. And the Administration long has known that it can't win over small companies—and some big ones such as restaurant operators PepsiCo Inc. and General Mills Inc.—that fiercely oppose Clinton's push for employer mandates.

The group swinging from support to skepticism consists of big employers that offer good benefits to their well-paid but mostly nonunion workers. These companies—including Sun, American Express, DuPont, Mead, and Xerox—have pioneered wellness programs and finan-

cial incentives for employees to choose lower-cost managed-care plans. Most of these companies back broad-based health reform—but now they're rethinking their position. "If reform isn't going to help us stop the costs, we've got to take another look," says AMR Corp. lobbyist Edward P. Faberman.

The provisions that concern these big employers include:

■ **New taxes.** Two of the bills assess payroll taxes on large employers as the price for continuing to run their own benefit plans.

■ **Cost-shifting.** Big companies now pick up much of the health costs of small business' employees through higher premiums that subsidize the uninsured (by enrolling small-company em-

ployees as dependents. Rather than end this cost shift, all four bills would give small business deep discounts, which large employers fear they'll finance. The Senate Labor & Human Resources Committee's bill, for example, would exempt companies with 10 or fewer employees from buying insurance.

■ **State flexibility.** All the bills give states the freedom to write their own health-plan rules. Multistate employers worry they'll be forced to fragment their benefits to meet varying state rules.

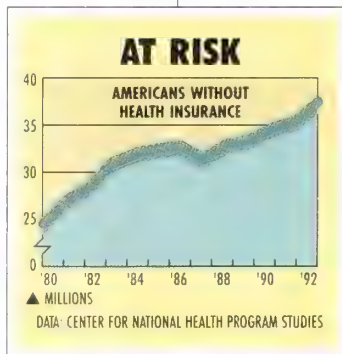
■ **Limits on managed care.** Health maintenance organizations' ability to manage their provider networks would be restricted. HMOs would be required to sign up any doctor, regardless of quality (the network's need for specialists. The

alone would boost a family's premium by up to \$1,200, according to the Group Health Association of America, an HMO trade group.

These troublesome measures present business lobbyists with a tough choice. Some argue that companies should try to kill comprehensive reform and throw their weight be-

hind a smaller package: "We may get to the point where the best way to go is incremental reform," says William F. Brown, senior consultant for labor issues for Mead Corp. Republicans are backing such bills, which would couple modest subsidies for the poor with insurance reforms.

Other business interests, however, contend that employers can't stop an initiative on which the Clintons and cor-





Professional Democrats have staked so much. Outright opposition would cost Corporate America what leverage it has in fixing the flaws. "We're trying to be constructively engaged," says IBM lobbyist Christopher G. Caine. On July 13, the board of the Association of Private Pension & Welfare Plans, a trade group of benefits managers, adopted a "two-track" strategy: Their lobbyists will seek amendments to the bill but will serve notice that business may swing into oppo-

sition if the final product isn't workable.

Business' best hopes for fixing the bills' flaws lie in the Senate. Majority Leader George J. Mitchell (D-Me.), with only a 56-44 majority, will have to court centrist Democrats with close business ties, such as Senators John B. Breaux (D-La.) and Bill Bradley (D-N.J.). Corporate lobbyists hope these moderates will back amendments that restore managed care and cut the legislation's cost to business.

At this point, though, business would be happy to see Congress scale back health reform. Corporate America, which has already slowed the pace of premium hikes from double digits to 6%, has increasing faith in its own ability to heal the medical system. An incremental approach that allows those efforts to continue might not provide everything business wants. But at least it would follow the medical maxim: First, do no harm.

*By Mike McNamee in Washington*

Commentary/by Keith H. Hammonds

## UNINSURED, AND LIKELY TO STAY THAT WAY

To get to the heart of the health-care-reform debate, it helps to steer clear of Washington. Travel instead to the Neighborhood Health Center, a primary-care clinic in Pittsfield, Mass. There, every afternoon, 20 or 30 patients walk in with medical problems—and no insurance to pay the bill.

Collette Dus, 32, is here for a checkup. It's her first since her husband Lino lost his \$40,000 machinist's job—and its medical benefits—in 1991. He now does freelance landscaping; Collette works part-time at a nursing agency. Together, they made \$19,000 last year—"not dirt poor," Collette says, but not wealthy enough to pay \$5,000 for insurance.

Most of the nation's 37 million uninsured are in the same boat. Most live above the poverty line. In fact, three of four uninsured adults are employed but typically hold jobs that offer few or no benefits. Unable to qualify for Medicaid, they negotiate a patchwork of free and subsidized services, delaying care and putting off noncritical tests and drugs. **"WORSE OFF."** It doesn't look like Congress is going to do these uninsured much good. Truly universal coverage, and the means to pay for it, has little political viability. Instead, what appears likely is a plan that guarantees nothing, costs many working poor more, and, ultimately, leaves millions without coverage for years to come. "Many people will be worse off," says Lynn Etheredge, a Washington consultant.

The problem starts with individual mandates. In essence, these require that every American buy insurance, with subsidies for families with incomes below a certain level—\$29,600 for a two-parent family with kids. The proposed



THE DUSES: MANDATORY ENROLLMENT WOULD BE A BURDEN

plans call for annual deductibles of \$400 to \$500 for individuals, plus separate deductibles of up to \$500 for drugs and coinsurance payments of up to 25%.

The question: Even with subsidies, how many of the now-uninsured will be able to afford such coverage? Linda Dupuis, a part-time factory worker in Pittsfield, offers a clue. She was covered by a policy until recently but couldn't pay its \$500 annual deductible and 15% coinsurance. Her kids get care from doctors who accept a few dollars a month in payment. But "anything for me, I won't go," she says.

Doctors and policy analysts say millions of others will be caught in the same bind, especially lower-middle-class families above the subsidy ceiling. Even more would be shut out by the weak-kneed Senate Finance Committee bill, which would allow Congress to knock down subsidies if enough funding doesn't materialize. (It won't.) An

employer mandate presents similar hazards: Small companies forced to pay for insurance probably would fund premiums out of workers' wages.

Other obstacles that prevent the uninsured from getting care aren't addressed by anyone's bill: lack of transportation, poor health education, a dearth of supporting social services. Some patients refuse to see doctors because of language barriers, psychological problems, or simply their shame in taking what they perceive as a government handout. "There's an open question whether providing access to medical care is enough," says Peter Z. Konigsberg, national medical director of Coopers & Lybrand's health consulting group.

**PROBLEM POSTPONED.** Do we accept a half-solution, or less? Any of the plans on Congress'

plate surely will reduce the number of uninsured, giving more people access to a broader range of medical services. And the price will not be terribly great: Rand Corp. estimates that universal coverage would cost \$20 billion to \$30 billion more—about 3% of total U.S. health-care spending—than what such patients cost the system already.

The risk is that the nation stomachs the coming congressional solution, then assumes the big problem is solved. It won't be. Among Pittsfield's uninsured, there's broad support for a plan that gives everyone the same benefits and some frustration with a political process that appears to be working at odds to their needs. "Whatever Clinton does," says Tina Lefebvre, a part-time hotel chambermaid, "I hope it helps me." She's likely to be disappointed.

*Hammonds writes about health-care issues.*





**LIKE PINOCCHIO?**  
**CLINTON'S EARLY**  
**PLEDGES NOW SEEM**  
**FALSE TO GAY**  
**PROTESTERS, WHO**  
**CHARGE HE GAVE**  
**GEBBIE (ABOVE)**  
**TEPID SUPPORT**

search director of the Chemical Dependency Institute, Beth Israel Medical Center, New York.

To make matters worse, the White House hasn't been bold enough in promoting condoms, prevention experts believe. "Damn it, we've got a crisis," says Dr. David Rogers, professor of medicine at Cornell University and former vice-chairman of the National Commission on AIDS. "Here's a disease we absolutely know how to prevent and we're not doing it."

Some wonder whether the White House's timidity stems from the same political concerns that hobbled the Bush Administration. Rogers spec-

ulates that after the furor over homosexuals in the military, Clinton is gun shy about stirring up the Religious Right further—and alienating conservative Democrats. Rogers and others believe that the President may be worried about being blamed for encouraging moral depravity through aggressive condom promotions or needle exchange. "Part of me suspects that somewhere in the Administration people are saying: 'Let's do the minimum we can and just let this epidemic burn out,'" says Delaney.

**HIGH MARKS.** That's a bit too cynical for most Administration critics. "There are many people in the White House and public-health bureaucracy who are extremely committed to the fight against AIDS," says Lynora Williams of the AIDS Action Council, the lobbying group for service organizations. Dr. Lee at HHS gets high marks for starting to put together a comprehensive AIDS-prevention strategy. And the Administration has pushed through large increases in funding for AIDS research.

Administration insiders insist that Gebbie's resignation is a step toward fixing the problems. Her eventual replacement, promises a top White House official, will be more skilled at coordinating policy across the various agencies and boosting the overall AIDS agenda.

Still, until the Administration manages to deliver on more of its campaign promises, AIDS advocates aren't about to cast Clinton again as a hero.

*By John Carey, with Susan B. Garland, in Washington*

## WHAT HAPPENED TO THE WAR ON AIDS?

Clinton's czar is gone, and critics say the Administration isn't doing enough

**A**IDS activists once viewed President Clinton as their savior. "Fighting the AIDS epidemic will be a top priority," Clinton vowed on the campaign trail. He promised to launch major new prevention initiatives and boost funding for research, prevention, and care. And once in office, Clinton appointed an AIDS czar to lead an all-out war on HIV, the deadly virus that now infects more than 40,000 Americans a year.

All of this was a big change from the Bush Administration, which quashed even simple measures such as promoting condom use because of a perceived threat to "family values."

But on July 8, AIDS czar Kristine M. Gebbie, a former top Washington State health official, resigned—the latest sign, Administration critics now contend, of a weak and sadly disappointing AIDS policy. They blame the White House for not giving her the power or backing she needed to become a forceful advocate. "Gebbie is a scapegoat," declares Martin Delaney, founding director of Project Inform, an AIDS treatment and lobbying group in San Francisco.

Even members of the Clinton Administration admit they could do better. "A lot of the

criticism is very legitimate," says Dr. Philip R. Lee, Assistant Secretary of Health & Human Services. "The process is improving. We're now getting cranked up."

Critics say examples abound of wobbly Administration support. When Gebbie tried to set up an advisory council to push a more aggressive AIDS agenda, the Administration failed to appoint any of the suggested members. Nor did the White House back the idea of providing addicts with clean needles, despite successful AIDS-prevention pilot programs in such cities as Tacoma, Wash., and Lund, Sweden. "The syringe-exchange issue is still bogged down at the federal level," complains Don C. Des Jarlais, re-

### CLINTON'S TARNISHED AIDS POLICY

*The White House has increased funding for AIDS research and patients' care, but critics still accuse the Administration of falling short in key areas:*

- ▶ Boosting prevention efforts, such as needle-exchange programs and sex education
- ▶ Reassessing priorities for the nation's \$1.3 billion research effort
- ▶ Coordinating efforts of various agencies to end duplication and save money
- ▶ Putting AIDS at the top of the political agenda, as candidate Clinton pledged



# ONE GIANT LEAP FOR SPACE ENTERPRISE

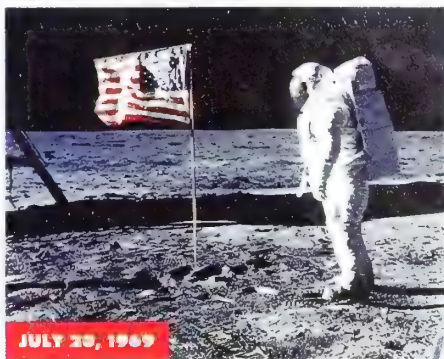
Reusable rockets could cut the cost of doing business Out There

It's an ugly bug of a rocket: squat like a pyramid, with spindly legs that extend from the base so it can land butt-first. Only a one-third-scale demo, it can't even reach orbit.

In many ways, the Delta Clipper Experimental 1 is quite a comedown from the thunderous Saturn V rocket that launched Apollo 11 astronauts toward the first moon landing 25 years ago. To critics, the puny "DC-X" epitomizes how low the U.S. space effort has sunk since the euphoria surrounding the Tranquility Base landing on July 20, 1969, a time when President Nixon called "the greatest week in the history of the world since its creation."

**FLYING WEDGE.** Yet the humble prototype has plenty of boosters. Built by McDonnell Douglas Corp. and 11 other companies with a modest \$60 million in Star Wars funding from the Defense Dept.'s Ballistic Missile Defense Organization (BMDO), the DC-X could be the forerunner of reusable rockets that make space exploration a lot safer—and cheaper. Says Air Force Lt. Col. Jess M. Sponable, who oversaw the project: "Within a decade or two, you'll see the beginnings of commercial space transportation that will knock your socks off."

The DC-X is only one possibility for a reusable launcher (table). It takes off and lands vertically, with throttled-down rockets firing to slow the descent. Lockheed Corp.'s flying wedge would take off vertically but glide in for a landing like the space shuttle. Boeing Co. has proposed a stubby-winged vehicle that could take off from the belly of a supersonic transport. Promoters say the vehicles could deliver cargo to space for less than a tenth the price per pound of the shuttle. Nothing is discarded in flight, and there's no need for an army-size ground crew to spend weeks or months preparing them for the next launch.



For now, conventional "expendable" rockets with stages that drop off are still very much in the space race. The small Pegasus rocket made by Sterling (Va.)-based Orbital Sciences Corp., which is launched from a plane, is the vehicle of choice for payloads up to 1,000 pounds. Less expensive some day could be intercontinental ballistic missiles (IBMs) converted for civilian payloads.

Lowering the cost of space flight is crucial to commercializing space. Low-cost launch capacity would propel satellite phone services, such as the Teledesic network backed by William H. Gates III and Craig O. McCaw. Manufacture of materials and drugs in near-zero gravity could blossom. Cheap rockets would also assist the U.S. in recapturing market share in the commercial launch business, which has dwindled to around 30% from nearly 100% in the mid-1970s. Much

**25 YEARS LATER**

**THE DC-X HAS NO FUEL TANK OR BOOSTERS TO EJECT, UNLIKE THE SHUTTLE**

of the lost business has gone to France, Russia, and China.

Former astronaut Charles "Pete" Conrad Jr. is pursuing the next generation of launchers with fervor. Conrad, a former moon walker who now serves as a vice-president at McDonnell Douglas Aerospace, is flight manager of the DC-X program. Says Conrad: "This is the first thing that got my candle lit since [Apollo]."

With adventure, though, comes risk: On June 27, a hydrogen explosion near the launch pad ripped a 15-foot hole in the 42-foot-tall DC-X just as it was blasting off at White Sands Missile Range in New Mexico. The flight crew managed to land the rocket about 800 feet away on an unprepared patch of desert. The explosion has delayed further test launches, but it provided designers with some important data about the DC-X's ability to abort a liftoff without exploding. Says Sponable: "You learn as much from a failure as from success."

**SENTIMENTAL JOURNEY?** Later this year, responsibility for the DC-X will be transferred from the Star Wars team of BMDO to NASA, which will use the rocket as a flying laboratory to test materials and devices for use in a future reusable launcher. NASA Administrator Daniel S. Goldin says the DC-X "is one of the most imaginative things America has come up with."

The homely rocket faces fierce competition from rival designs. But it has tapped into a yearning that endures a quarter-century after those first steps on the moon. A sentimental journey? You bet. But says Conrad, who commanded Apollo 12: "Space shouldn't be an emotional thing. We need to make it just another place where we do normal work." In that sense, the DC-X may be just the ticket—back to the future.

*By Peter Coy in New York,  
with Otis Port in New York  
and John Carey in  
Washington*

## SPACE RIDES, ECONOMY CLASS

Reusable launch vehicles that could slash NASA's \$10,000-per-pound cost of payloads

COULD BE READY BY

PROJECTED PAYLOAD COST

### BOEING

A space plane launched from the belly of a 747-size supersonic transport. The space plane would land horizontally.

2002

\$500 TO \$600 PER POUND

### LOCKHEED, ROCKETDYNE

A wedge-shaped spacecraft that would launch vertically but land like an airplane.

2008

\$500 PER POUND

### MCDONNELL DOUGLAS, PRATT & WHITNEY, 10 OTHERS

A pyramid-shaped rocket that would blast off and land vertically.

2002

\$400 PER POUND



## DISASTERS

### A FLOOD TO RIVAL SHERMAN

Georgia's worst-ever deluge has engulfed farms and factories

**B**ad enough that 100 acres of Rodney Harrell's peanuts and cotton are drowning in up to six feet of rust-colored water. Now, in the aftermath of Georgia's massive flooding, Harrell is battling a deluge of crop-killing insects and weeds as he tries to salvage his remaining 800 acres. As the rain continues to fall, the Leesburg farmer's forecast doesn't look good. "I'll be satisfied if I can pay my bills," he laments.

With 21% of their crop waterlogged, Harrell and his peanut-growing brethren top the list of agricultural casualties in the state's worst flood ever. Cotton, soybeans, and other crops planted across 43 counties also have succumbed to the muddy waters; the peach harvest alone could lose \$15 million in value. The damage won't nearly match the destruction wrought last year when the Mississippi overflowed. But losses in crops, buildings, and equipment top \$108 million so far. President Clinton, touring the area July 13 after announcing a \$60 million federal aid package, saw a swollen Flint River plowing a watery path through a string of manufacturing towns. "The impact is almost immeasurable," says Georgia Senator Sam Nunn.

**FIRE NEXT TIME.** It also has been tragically unpredictable. Southern Frozen Foods, a division of Curtice Burns Foods, was fortunate to occupy dry ground when the waters swept through Montezuma. But when its plant caught fire last week, the community's fatigued water system couldn't deliver sufficient pressure to activate company sprinklers. The fire wreaked more than \$2 million of damage. Down-river in Newton, the owners of Pineland Plantation, a 300-acre catfish farm, watched in horror as breeding ponds overflowed and their stock just swam away. "Fish don't have a tendency to stay in a pond when it's flooded," reflected Ed M. McGill, manager of Westbrook's Farm-Raised Catfish Co., a Pineland customer.

At least the fish were in their element. Thousands of cows, chickens, and other livestock have drowned, and farmers now face tight feed supplies. Many feed mills, which depend on water to process grain, have been knocked out. Those that are operating can't make de-



PADDLING IN MACON: WATERS PLOWED THROUGH A STRING OF MANUFACTURING TOWNS

liveries because of closed bridges and flooded roads. In a bizarre gauge of the flood's cruelty, some farmers report hundreds of starving chickens that have pecked each other to death: They hadn't been fed for days.

There are some bright notes. In the 30 hours before the waters overtook his Albany plant, Jimmy Lewis packed three 45-foot tractor trailers with inventory, computers, phone equipment—everything he could move—and trucked it all five miles across town, saving his agriculture-equipment maker, Cross Equipment Co.

Other companies will clean up in the flood's wake. At Adams Exterminator Co., calls are double their pre-flood levels, as pests searching out higher ground invade dry homes and businesses. "We've been working from dawn to dark," says Adams' new owner, Jeff "Bodine" Sinyard, who returned from Atlanta to fight the floods. For most people in the water's way, the hard work will go on long after the river recedes.

By Maria Mallory in Albany, Ga., with Jonathan Ringel in Atlanta

## STRATEGIES

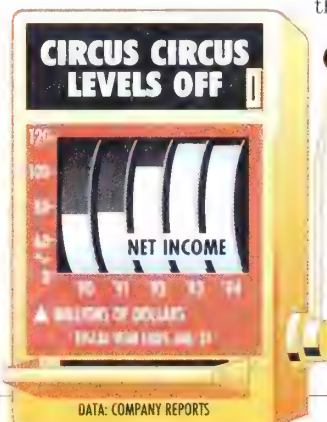
### CIRCUS CIRCUS' HONEYMOON IN VEGAS IS OVER

Its founder and chairman gone, the company may be looking for a buyer

**A**s angry shareholders jostled to be heard in a meeting at the Excalibur casino in Las Vegas, Circus Circus Chairman William G. Bennett stepped forward. No, Bennett vowed to shareholders, Circus hadn't talked to outsiders about a buyout—only to admit later to reporters that, in fact, it had. One shareholder, lamenting a yearlong nosedive in the stock of Circus Circus Enterprises Inc., from 48 to 26, drew loud applause when he told Bennett: "I don't know whether to go up and get a room for sleeping or for jumping."

Within two weeks, it

was Bennett who had jumped. The 61-year-old former furniture-store owner whose bargain-basement casinos are credited with making Vegas a mass market, was forced to quit on July 8. Now the company is bracing for a possible takeover attempt. At a July board meeting, Circus was expected to authorize investment banker Salomon Brothers Inc. to develop a series of strategic options. Circus may already be a target. On July 1 Chicago-based Bally Entertainment Corp. was granted antitrust clearance from the Federal Trade





commission to buy up to 25% of Circus. Industry insiders say Caesars World Inc. also is examining a merger proposal. And Bennett, who owns 7.4% of Circus' common stock, may seek financing to reclaim the company, some board members fret. Officials at both Bally and Caesars refused comment. Bennett, who officially leaves on Aug. 12, was unavailable for comment.

The uncertainty puts incoming Chairman Clyde T. Turner in an uncomfortable position. An industry veteran, the 63-year-old Turner joined Circus as its president 17 months ago but had been ostracized by Bennett's iron rule. "I'm putting a high priority on increasing shareholder value," he says. "I'm keeping my options open."

**ROLLER COASTER.** How could Circus—long Vegas' fastest-growing company—fall so far so fast? For one thing, earnings from the company's new, \$390 million Luxor Las Vegas casino have been disappointing. To improve business at its new \$92 million Grand Slam Canyon theme park, the company had to add \$10 million in new rides. Circus also was slow to expand to new locales, and it was unable to keep competitors, such as the MGM Grand Hotel & Casino, from luring away customers. Meanwhile, a parade of Circus top executives—including two hand-picked successors to Bennett—have left the company.

Last year, earnings fell for the first time in 20 years, slipping 1%, to \$116 million on revenues of \$954 million. When earnings also stalled in the quarter ended Apr. 30, institutional investors started clamoring for change.

Bennett, who had maintained autocratic control over the company since 1974, infuriated shareholders by announcing at the June meeting: "I'm back into operations deeper than ever." That was it. Outside directors, led by Wertheim Schroder & Co. Managing Director Tony Coelho, strong-armed Bennett out.

"This gives management breathing room to redirect their efforts," says Remy M. Fisher, first vice-president at Kemper Financial Services Inc. in Chicago, a major stockholder. Turner, who says earnings improvements are at least two quarters away, is pushing ahead with new projects in Windsor, Ont., and Reno, Nev. More likely, Turner will help broker a deal. He may be forced to ally himself with a strong player in another market niche to buttress the company's earnings. One possibility: Caesars, which caters to higher rollers than Circus' traditional clientele.

High rollers and Circus Circus? That may seem an odd combination. But it sure beats shareholders talking about dumping out of hotel windows.

*By Ronald Grover in Los Angeles*

## PEOPLE

# THIS GOLD MINER GOES DIGGING FOR A MOTHER LODE

Vancouver's Royal Oak makes a hostile bid for an outfit four times its size

**M**argaret K. Witte, chief executive of Vancouver-based Royal Oak Mines Inc., isn't to be taken lightly. Two years ago, union members at the company's Giant gold mine in Yellowknife rejected a cost-cutting contract. Witte promptly locked out the miners and recruited 220 replacement workers. Canada's only female mining company CEO drew death threats. Tensions soared when a mine explosion in late 1992 killed nine people. A union miner has been charged with setting the blast.

But Witte held her ground until late 1993, when a mediator hammered out a settlement. The endgame: Production costs at Royal Oak's Giant mine fell to \$285 an ounce, from \$395, putting the money-losing mine back into the black. Witte is now a pariah to labor. But she responds: "The mine would not be operational today if the company had not taken its stand."

Such doggedness should come in handy for what's shaping up as the biggest battle yet for the 40-year-old Witte. On July 7, she stunned the industry by making a hostile, \$1.4 billion tender offer for Lac Minerals Ltd., a Toronto-based gold producer with 1993 revenues of \$440 million—four times those of Royal Oak. "There's no question Lac will fight," says John R. Ing, CEO of stockbroker Maison Placements Canada Inc. "It's like a mouse trying to make love to an elephant."

**MAKING WAVES.** If Witte prevails, Royal Oak will join the ranks of North America's largest gold companies, producing some 1.5 million ounces a year. Even if she loses, Witte's bid has jolted "the stagnant gold business like a cattle prod," says Douglas B. Silver, president of Balfour Howell International, a Denver-based mining consultant. He sees "a new era of smaller gold companies making runs" at the big outfits.

"Peggy" Witte is used to making waves. After growing up on a 2,000-acre ranch, she was the only woman in

her class to receive a masters in metallurgical engineering at the University of Nevada. She began building her own mining company in 1986 by buying mines at fire-sale prices, then vigorously cutting costs. The result: steadily rising earnings for Royal Oak. Last year, it posted record net income of \$12 million on revenues of \$104 million.

Lac is a far cry from the small mines Royal Oak has swallowed to date. But Witte figures it's vulnerable. Because Lac overpaid for some mines, it has posted anemic earnings, culminating in last year's \$63.5 million loss.

Witte is offering Lac's investors a



**WITTE: THE LAC FIGHT LOOKS BRUTAL—ANALYSTS GIVE HER A 50-50 CHANCE**

combination of Royal Oak stock and \$400 million in cash worth about \$10 a share, a 20% premium over Lac's share price on July 6. "That's near the top end of what Lac is worth," says Mike Jalonen, an analyst at Midland Walwyn Capital Inc. Her plan: Slash some \$40 million from Lac's overhead and exploration budget, giving the combined company a cash flow of

\$170 million next year, Jalonen figures, or seven times what Royal Oak will generate this year. Lac executives aren't commenting, saying it would be "premature to talk." But a fight is expected.

Some analysts rank Royal Oak's chances of prevailing in such a contest at no better than 50-50. The reason: Only 28% of Royal Oak's \$1.4 billion bid is cash. The remainder would be financed by issuing some 250 million new Royal Oak shares. Another gold company could easily match Royal Oak's bid. And given the choice, investors would likely opt for a more established producer. "Large investors will wonder whether Witte's management team is capable of running Lac," says Silver.

Maybe so. But a loss wouldn't keep Witte down for long. "If this bid falls through, we'll just look for another acquisition," she says. Whatever happens, expect to hear a lot more from Royal Oak and its indefatigable CEO.

*By William C. Symonds in Toronto*

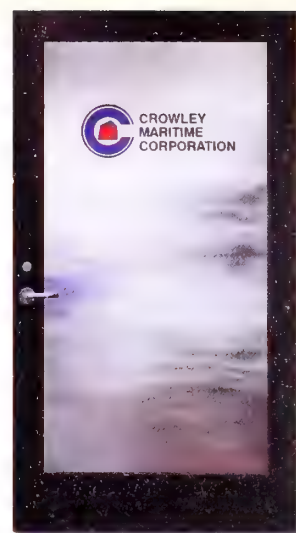




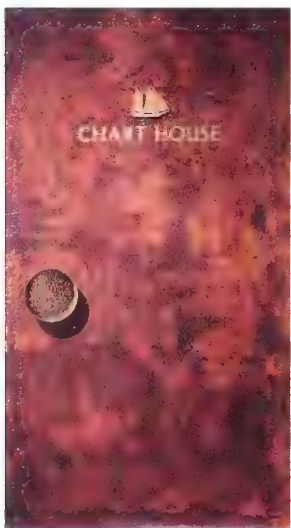
Since Lante Corporation created a sales toolbox using Microsoft Office and Visual Basic, sales have increased 128%.



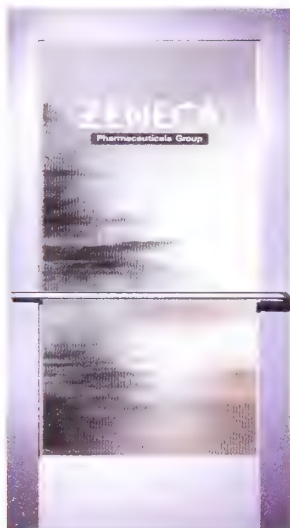
Wonderware Corp. created a Microsoft Windows®-based control system at one-fourth the cost of a typical configuration.



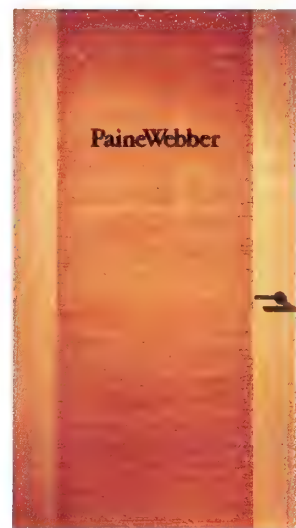
Gateway Group, Inc. helped integrate Microsoft SQL Server into an image-based billing system, dramatically improving productivity.



Microsoft Office and WinResources Consulting, Inc. made changing menus faster and easier for this popular restaurant chain.



MDI Information Systems, Inc., and Microsoft Office provided productivity tools allowing research scientists to better analyze data.



This securities firm looked to Micro Modeling Associates and Microsoft Office to expedite the delivery of investment research to clients.



MTX International, Inc. and several Business Systems joined this supermarket's accounting and point-of-sale system with Microsoft Access.



Platinum Software and Paradigm Technologies implemented a Windows NT®-based client-server architecture, cutting costs 65%.



This law firm now spends less time on paperwork thanks to Quickstart Technologies' use of Microsoft Office and the Windows NT family.

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EDITED BY KEITH H. HAMMONDS

## LILLY'S NEW BLOOM COSTS A BUNDLE

**M**erck's acquisition last year of Medco Containment is starting to look like a prescient bargain. On July 11, Eli Lilly agreed to pay \$4 billion for one of Medco's rivals, McKesson's PCS Health Services unit. Wall Street sent Lilly's stock down 15%, with good reason: It will pay 130 times net earnings for a pharmacy benefit manager (PBM) with just \$170 million in sales. But Lilly had little choice. PBMs, which process prescription claims and negotiate bulk discounts with drug manufacturers, have gained control of one-third of the prescriptions written in

the U.S. Lilly admits it felt pressure to move fast or be left behind.

## UNITED WORKERS FINALLY WIN OUT

**I**t took them seven years and five tries, but employees of United Airlines finally own the airline. On July 12, UAL shareholders approved a \$4.8 billion buyout that gives 55% of the company to workers in exchange for wage concessions. Despite grouching by shareholders, the deal received 70% of the votes. Newly installed Chairman Gerald Greenwald, a former Chrysler executive, let it be known that United's new short-haul airline will be called, simply enough, United Shuttle.

## A RISKY DETOUR FOR DELL

**D**ell Computer has promised for months to return to the hypergrowth of yore. But on July 11, the personal-computer company turned its back on the fastest-growing segment of the industry, cutting ties with five retail partners including CompUSA and Best Buy. With retail sales projected to contribute just 2% of its sales for the quarter ending July 31, the company decided to refocus on its vaunted direct-mail operation and other, less costly channels—such as marketing via computer networks. Analysts agree the move will bolster profits in the short term but question the long-term wisdom. By limiting its growth potential while Compaq, IBM, and others crank up volume, they say, Dell could lose market share.

## REDESIGNING DOLLARS TO GIVE FORGERS FITS

**T**o combat the troubling increase in counterfeit U.S. bills, Treasury officials told

## HEADLINER

## JUST THE WOMAN FOR THE BOSTON FED

**U**nder fire from Congress for a lack of diversity in its top ranks, the Federal Reserve Board on July 13 chose a woman as president of the Boston Fed. Cathy Minehan, a career Fed staffer and No. 2 in Boston since 1991, is only the second woman in the Fed's 83-year history to head one of its 12 regional banks.

Minehan, 47, spent most of her career at the New York Fed, where she rose through its nuts-and-bolts electronic payments operation and gained a reputation as an efficient manager. "She's incredibly productive," recalls Gerald Corrigan, former chief of the New York Fed. Corri-



gan says Minehan played a key role in the Fed's attempt to stabilize the banking system during the 1987 stock market crash and the 1990 Drexel Burnham failure.

With no real background in economics, Minehan isn't expected to play a strong role in monetary policymaking. In an early June speech, though, she praised the Fed decision to preempt inflationary pressures by raising interest rates. "I come to issues of monetary policy," she says now, "from the perspective of someone with good understanding of business fundamentals."

By Mark Maremont

members of the House Banking Committee at a July 13 hearing that Treasury will be testing a series of new features. Among the ploys: moving portraits of George Washington and his peers off center and using watermarks and tricky interactive patterns that can't be reproduced well—even with today's sophisticated copiers. The radical redesign should be completed sometime in 1995, with new \$100 bills—those most often counterfeited—coming off the presses the following year.

## RON CAREY'S PRETTY GOOD REVIEW

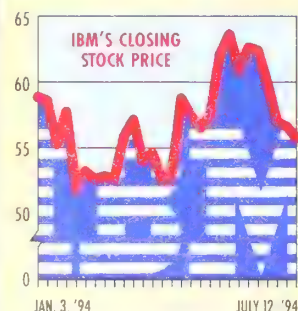
**T**eamster chief Ron Carey has won some vindication. The Independent Review Board (IRB), charged with overseeing the long-troubled union, announced on July 11 that it had found no evidence that Carey had ties to organized crime or had accepted illegal payments to finance an

extensive personal real estate portfolio. Allegations linking Carey to organized crime have been made by a former criminal family boss; his real estate holdings were first reported by BUSINESS WEEK. The IRB did find, however, that Carey had improperly signed his wife's name on notarized documents and had asked a union employee to witness a false signature. The IRB described Carey's actions as "troubling" and "improper," but noted that the matter was not linked to union business.

## ET CETERA...

- ▶ Japan's Kobe Steel and Alcoa will disband their venture to make aluminum tubes.
- ▶ Prudential reserved another \$305 million to cover legal costs from partnership claims.
- ▶ Henry Schacht, who resuscitated Cummins Engine, resigned as its CEO.
- ▶ Caffeine jolt: Coffee prices jumped again, on news of another Brazilian frost.

## CLOSING BELL



## THE BIG BLUES

**A**re IBM investors jittery? You bet. After hitting a 1994 peak of 65 in mid-June, IBM shares have tumbled 10 points. The reason: Mounting concern that sales could stall through yearend, as customers wait for Big Blue to introduce new products from PCs to mainframes. On July 21, when IBM reports second-quarter results, analysts expect sales to inch up just 1% from the like period a year ago. Tough cost-cutting, however, should help boost profits to \$440 million. Meanwhile, insiders say the pace of workforce cuts will pick up as IBM tries to shed 28,000 employees by yearend. The targets: IBM Europe, the PC unit, and U.S. headquarters sales staff.

DATA: BIDGE INFORMATION SYSTEMS INC.



## NOW, THE WHITEWATER HEARINGS HAVE BOTH PARTIES NERVOUS

**R**epublicans have been counting on the congressional Whitewater hearings to be a political bonanza that would embarrass Bill Clinton and boost GOP prospects in the fall's midterm elections. But with the hearings set to open on July 26, GOP strategists are fretting that their expected summer blockbuster, *Son of Watergate*, will instead turn into a dud: *Capital City Slickers II*.

Why the letdown? Democrats have delayed the hearings and narrowed their scope, thanks in part to pleas from independent counsel Robert B. Fiske Jr., a Republican, to avoid issues that could jeopardize his investigation. Not only has interest in Whitewater waned, but Fiske's interim report on June 10 took the punch out of claims that the White House obstructed justice.

**QUICK KILLING.** It doesn't help that the GOP's point man in the Senate, Alfonse M. D'Amato (R-N.Y.), is ethically tainted. Soon after the feisty New Yorker condemned the First Lady's wildly profitable commodities trading, he was hit by new disclosures about his own sweet stock deal.

With no new bombs in their arsenal to damage the Clintons, GOP leaders fear they'll come across as shrill partisans peddling stale allegations. "It would be a miracle if Republicans score points," admits House Banking Committee member Spencer T. Bachus III (R-Ala.).

That doesn't mean the Republicans will go down without a fight. They plan to push to explore several out-of-bounds subjects: the Justice Dept.'s handling of a Whitewater-related criminal referral; the contents of potentially sensitive documents removed from White House lawyer Vincent Foster Jr.'s office shortly after his suicide; and the Clintons' ties to Dan R. Lasater, a convicted cocaine dealer and onetime boss of White House aide Patsy L. Thomason. By forcing House Banking Committee Chairman Henry B. Gonzalez (D-Tex.)

and his Senate counterpart, Donald W. Riegle Jr. (D-Mich.), to bar such inquiries, the GOP aims to spark public demands for more hearings after Fiske's investigation is completed.

Meanwhile, the House Banking Committee's top Republican, Jim Leach (R-Iowa), is rushing to unearth some nasty nuggets. He's wrangling to get all Resolution Trust Corp. and Office of Thrift Supervision documents on the failed Arkansas thrift run by the Clintons' Whitewater partner, James B. McDougal.

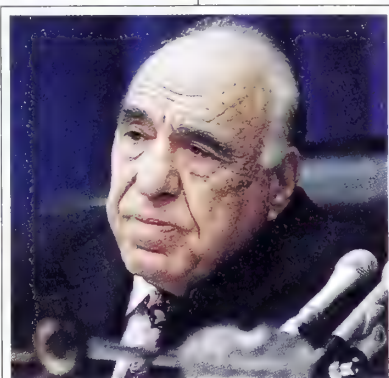
Even without startling revelations, Democrats stand to lose. Clinton, who has taken a pounding from critics over his character and leadership, won't be helped by a redredging of political sludge. And new dirt could return the sleepy scandal to public consciousness.

**BORING RERUN?** A more likely scenario is that pesky Republicans will hammer Democrats for covering up ethical lapses stemming from questionable contacts between the Treasury Dept. and the White House. Their aim: goad the volatile Gonzalez into an unseemly eruption. Already, Republicans are complaining about his moves to weed out potentially damaging witnesses, such as RTC investigator L. Jean Lewis of Kansas City, who complained of political pressure from Washington. "If the hear-

ings appear to be a cover-up, it will hurt the Democrats," warns L. William Seidman, former chairman of the Federal Deposit Insurance Corp.

That's a risk Democrats are willing to take. But Republicans fret that the hearings could be boring, neither as riveting as the O.J. Simpson murder case nor as vital as health care. "The public is as annoyed at the people who keep bringing Whitewater up as they are at the alleged perpetrator," says GOP pollster Frank Luntz. In the end, Whitewater's winner may be the party that embarrasses itself the least.

*By Amy Barrett and Richard S. Dunham*



GONZALEZ WILL LIMIT QUESTIONING

### CAPITAL WRAPUP

#### REGULATION

**C**all it a government bait-and-switch. The victims: three communications companies that stand to lose freebies worth some \$500 million each. In 1991, the FCC came up with a sweetener to spur development of technologies for a new wireless phone service called PCS—a free license and the market of choice to service-providers. Last year, these "pioneer preferences" were tentatively awarded to Cox Communications, which chose Los Angeles; American Personal Communications, which picked Washington, and Omnipoint, which selected New York. But powerful House Commerce Committee Chairman John

D. Dingell (D-Mich.) wants the FCC to renege on the deals because the licenses are too valuable to give away. The FCC is expected to let the companies keep the licenses—if they pay the market value.

#### TELEVISION

**P**resident Clinton may have lots of fans in "liberal" Hollywood, but that doesn't seem to influence their work. Conservative watchdog Media Research Center found that 70% of all references to Clinton in prime time entertainment shows during the 1993-94 TV season were negative. Hillary Rodham Clinton, by contrast, got off easy, with positive mentions 89% of the time.

#### TRADE

**P**resident Clinton's first meeting with new Japanese Prime Minister Tomiichi Murayama in Naples on July 8, went so poorly—despite public claims to the contrary—that the White House has resolved to play hardball on trade talks with Tokyo. Murayama's refusal to make any market-opening concessions is prompting the Administration to open an investigation in late July of Japanese government procurement practices. That could lead to tariffs on some Japanese exports. "There's a sense of utter frustration with the Japanese government," fumes a White House official.



## IN SOUTH KOREA, A DIFFERENT KIND OF DREAD

Many fear that an economic collapse north of the DMZ could put too heavy a burden on Seoul

**A**fter more than four decades of worrying about North Korean President Kim Il-Sung, residents of Seoul spent the days following the announcement of his death on July 9 dreading life without him. The emergence of Kim Jong-Il, the mysterious son of the "Great Leader," as the new boss in Pyongyang did little to reassure South Koreans. Many envision the younger Kim presiding over an economic and political meltdown—a collapse that would force the south to spring for a multibillion-dollar bailout. "I worry about us having to suffer together with them," says Son Woong-Hee, a 22-year-old office clerk in Seoul.

The death of Kim Il-Sung and the rise of Kim Jong-Il in Pyongyang has many South Koreans reconsidering their plans for the north. For years, the South Koreans figured they could concentrate on building their economy into a regional powerhouse. Then, after joining the world's industrial elite, the south would turn to the huge task of assimilating the north. By then, North Korea would have reached an economic level that would make the cost of reunification less painful.

Now, the turmoil in North Korea could force Seoul to step up its engagement with its old enemy. Some of South Korea's industrial giants, such as Hyundai Corp. and Daewoo Corp., are already developing trade and manufacturing links with the north. Such deals are laying the foundation for gradual unification. But South Korea's companies may be forced to do much more.

**HUMMING AGAIN.** Going too fast would jeopardize South Korea's goal of becoming a regional economic power by the end of the decade. Before Kim Il-Sung's death, South Korea seemed right on course. After several years of sluggish growth, the economy is humming again (table). Exporters are thriving as the yen's strength gives South Koreans an edge over Japanese rivals. The *chaebol*, or industrial conglomerates, are splurging on investments throughout Asia.

Back home, they are charging into technologies such as satellites and nuclear power plants. And the government has mapped out ambitious plans to spend more than \$100 billion on telecommunications, high-speed railways, and other infrastructure projects.

Just how many of those plans will need to be shelved depends on whether Kim Jong-Il—or whoever eventually replaces him at the top of the Pyongyang regime—can revive a northern economy already in crisis. It has contracted sharply in the '90s, and foreign visitors to North Korea have returned describing mass starvation in rural areas. Some North Koreans are resorting to increas-

ingly desperate measures to stay afloat. Perhaps the only industry that's growing is the smuggling trade. In one thriving business, North Koreans buy East European cars, sneak them across the border into China, and resell them at prices that don't include Chinese tariffs.

While nuclear talks between Washington and Pyongyang are set to resume soon, the greatest fear among neighboring nations is not military conflict but economic mismanagement so severe that desperate North Koreans will stream out of the country. "We're not ready to accept a deluge of refugees from the north," frets one South Korean government official. Likewise

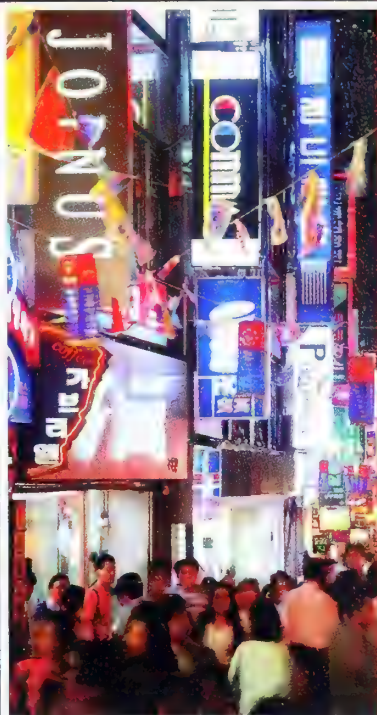




China and Russia are worried about Korean refugees reaching their bordering regions by land. Japan, home to 700,000 recently divided Koreans, also is anxious to prevent shock waves from disturbing its vaunted social stability. "We don't know how or when [North Korea] will explode, but it will," says one Japanese government official in Tokyo.

That's why South Korea, Japan, China, and Russia all believe that stabilizing the north's economy is more important than thwarting its nuclear program. Even before Kim's death, they were quietly cultivating economic ties with Pyongyang which could accelerate now. That is bound to complicate U.S. efforts in upcoming talks in Geneva: The U.S. wants to link any consideration of North Korean economic aid to major concessions on nukes.

**SHOOKED.** Before his death, Kim Il-Sung appeared on the verge of slowly cashing in his nuclear chips in exchange for economic gains. Even for a Stalinist like him, that would have required very skillful management over a period of years to avoid alienating hard-liners or igniting an explosion of expectations among 20 million hungry North Koreans. Few experts believe that the erratic Kim Jong-il, who lacks the charisma and revolutionary credentials of his father, can reverse the north's problems on his own.



## THE SOUTH

Even Seoul's economic dynamo would find it tough to finance a bailout of the north costing hundreds of billions.

### GROSS DOMESTIC PRODUCT

**\$289 billion**

### ECONOMIC GROWTH

**8.8%**

### POPULATION

**44 million**

### EXPORTS

**\$81 billion**

### LARGEST TRADING PARTNER

**\$37 billion  
(US)**

manding than members of South Korea's sometimes militant unions. Hyundai is working on plans to use North Korean laborers on construction projects in Southeast Asia and the Middle East. Getting through a loophole in South Korean law, Daewoo has begun using third parties in Hong Kong and China to send designs and fabric to North Korea. It then buys the garments assembled by northern workers. Daewoo also has bigger plans. Chairman Kim Woo-Choong is negotiating to build an assembly complex in the North Korean city of Nampo for luggage, shirts, shoes, and toys.

**FAMILY TIES.** On another front, the south, poor in most natural resources, would like to tap big coal deposits and lumber reserves in the north. The problem is that taking advantage of those resources will take time and money. Daewoo President Yoo Ki-Bum says the quality of the apparel assembled for his company in the north "is a problem," and that his engineers and technicians would have to train the northerners. Tapping the north's raw materials would require establishing an infrastructure where none exists today. North Koreans are also likely to push for better living conditions, imposing new social and housing costs.

The first signs of a north-south rapprochement could show up in a new immigration policy. Allowing selective family reunifications would signal Kim Jong-il's desire to continue down the path of reconciliation. Reuniting families would not cost much, but would reveal the stark gap between north and south. "The problem with the soft-landing scenario is that it requires the North Koreans to open up," says Robert Manning, senior fellow at the Progressive Policy Institute and an East Asia adviser in the Bush Administration State Dept. "That would unveil 40 years of myth-building." With the Great Leader now gone, many more myths will surely be exposed before the two Koreas reunite.

By Laxmi Nakarmi and William J. Holstein in Seoul, with Joyce Barnathan in Beijing and Amy Borrus in Washington

## THE NORTH

The economy is already in crisis, having contracted sharply in the past few years. Recent foreign visitors have described mass starvation in rural areas, and few believe that Kim Jong-il can chart a recovery.

### GROSS DOMESTIC PRODUCT

**\$20 billion**

### ECONOMIC GROWTH

**-5%**

### POPULATION

**20 million**

### EXPORTS

**\$938 million**

### LARGEST TRADING PARTNER

**\$890 million  
(CHINA)**

"The new leadership will be more vulnerable to economic difficulties," says South Korean Foreign Minister Han Sung-Joo.

In the event of chaos north of the demilitarized zone, South Korea will certainly be forced to shift more of its trade, aid, and investment northward. Having been spooked by the difficulties following Germany's reunification, Seoul wants to avoid a sudden rush of immigrants and a complete shift of the financial burden to the wealthier south. The cost of speedy reunification would be exorbitant. Estimates on the price of bringing the north's tiny \$20 billion economy up to the south's level range anywhere from \$250 billion to \$400 billion.

That would drain resources from the south, which is running short of capital for its ambitious spending plans. Even now, to pay for \$17 billion in rail and airport projects, Seoul is considering new laws opening them to foreign investors. With fast-forward reunification, the *chaebol* might also be obliged to seed the north with light-assembly plants. That would mean shifting investment from big pushes into Vietnam and other emerging markets.

Yet the *chaebol* also recognize the long-term benefits of closer ties with the north. With average wages of just \$50 a month, its workers are one-tenth as expensive as those in the south. Moreover, they are much less de-





RUSSIA

## IN MOSCOW, IT'S LOCATION, LOCATION, LOCATION

Western companies find Russian real estate risky but irresistible

**W**hen Liggett Group Inc., maker of Chesterfields and L&M cigarettes, invested in Ducat, owner of a Moscow cigarette factory, it seemed like a big gamble: Ducat's 100-year-old plant contained ancient equipment. That was four years ago. Today, the partners are gearing up to produce cigarettes at a new plant in the suburbs, while the old city site is being redone as a gleaming financial center for foreigners. Called Ducat Place, the 2.5 acre project is one of Moscow's hottest properties, thanks to its central location near Mayakovsky Square. "Sure, there is solid value in the cigarette business," says Ducat Place Director David Geovannis, "but the real estate business is a terrific bonus for us."

Liggett is one of many Western companies jumping into Russia's high-yield, high-risk real estate market. Since 1990, rental fees have skyrocketed as Western businesses have competed for scarce office space in such key cities as Moscow, St. Petersburg, and Ekaterinburg. These cities have cheap, dilapidated buildings in prime locations that can be renovated or rebuilt and rented at huge profit. "Distributors or exporters come to town with an idea to develop a particular product but fall into property development and say: 'Maybe we should get into this business instead,'" says Alison M. Driezen, resident partner of White & Case, a New York law firm.

But the wild world of Russian real estate is filled with pitfalls. Russia's emerging legal codes don't give clear title to either property or land. While Boris Yeltsin's new constitution lets foreigners purchase land, the State Duma recently prohibited it. To get around that, foreign businesses often use local partners. Other hazards for foreigners include organized crime, corrupt officials, and red tape. Building Ducat Place required approvals from 130 different city committees.

Lining up financing is tricky. Liggett provided its own equity for the renovation. Banks turned the company down because it wasn't clear whether they could repossess the land if the deal failed. Some big projects, such as the

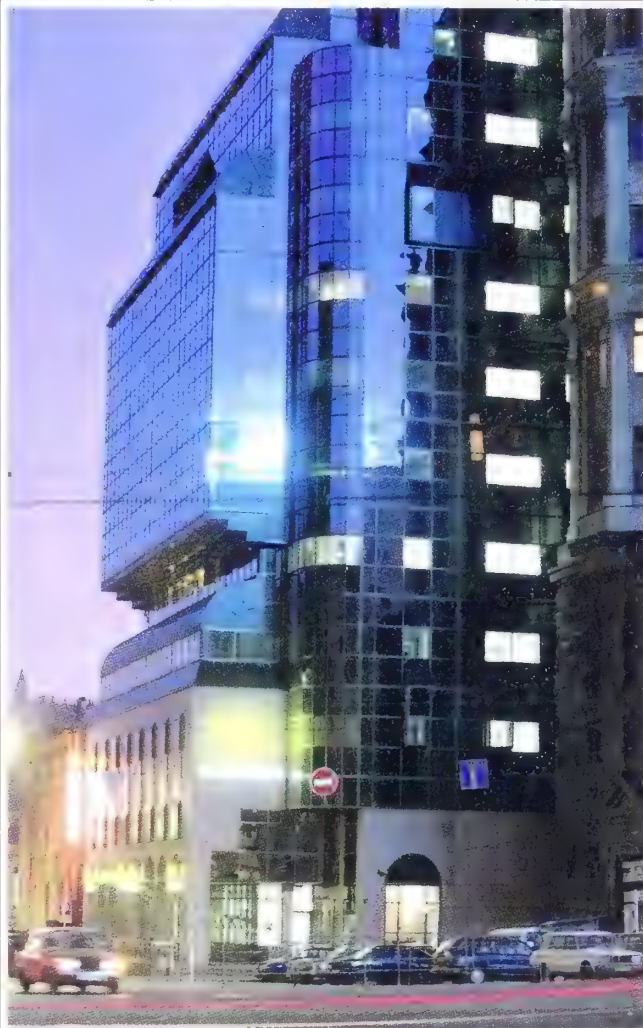
plows them into local real estate, including a gleaming mirrored tower it rents to Western companies. "It turned out to make a lot of sense," says McDonald's General Manager Mark Weiner.

In Liggett's case, the company has already recouped the \$5.3 million cost of the first building in Ducat Place. That happened last October, when Citibank signed a five-year lease for the entire

building, paying two years up front. Citibank has since subleased space to other banks. Similarly, Berlin-based developer S&T Handels, in partnership with the government, renovated a building that now houses Exxon Corp. and the International Monetary Fund.

**GANGS.** But many Russians aren't happy with the Western deals. Factory bosses resist moving operations to make way for foreign offices. Officials, led by Moscow Mayor Yuri Luzhkov, fret that foreigners are getting stolen. "Many officials have an inflated view of property values; some think Moscow is being sold for a song," says Oleg Myshkin, development director for Haskel International Brokerage.

Another troubling aspect of the boom is organized crime. Gangs have been pushing out babushkas from apartment buildings and turning the build-



19-story business center proposed by First Voucher Fund, a Russian investment company, may never get completed because of a lack of funds.

But the potential profits are too good to pass up. Annual rents for prime space in central Moscow run from \$84 to \$93 per square foot, with one or two years prepaid. In contrast, similar space goes for \$60 in Tokyo and \$47 in London.

Faced with such high rents, many foreign companies are developing properties themselves. One example is fast-food giant McDonald's Corp., which has three highly successful outlets in downtown Moscow. Rather than worry about repatriating ruble profits, McDonald's

ings over to foreigners at enormous profit. To escape high commercial rents, smaller companies have been using apartments. Now, those companies are panicking after a ruling from the Moscow City government making it illegal for apartments to be used as offices. That means smaller companies are out on the street, thus pushing up demand.

Certainly there's plenty of opportunity in Russian real estate. "Most developers are under the euphoria that this is the Wild West," says Myshkin. It may be for now. But all real estate bubbles burst. Some experts see that happening in Russia within 18 months.

By Juliette Rossant in Moscow

**McDONALD'S IS PLOWING ITS PROFITS BACK INTO LOCAL PROPERTIES**



**Over half a million Americans have financed their dream  
with \$100 billion in mortgage loans from  
The Prudential.**

**Proof that there's strength in numbers.**

**And peace of mind in strength.**







**HOW A QUIET  
TELECOMMUNICATIONS  
GIANT KEEPS AMERICA'S  
BELLS RINGING.**



We've learned something over the last half century about fitting new telecommunications systems into existing ones. Even more than technology, it takes ingenuity. And that keeps the entrepreneurial juices flowing.  Fujitsu technology and timing made the first self-healing SONET fiber optic ring network in the U.S. a reality for Cincinnati Bell Telephone. And made America's first high-bandwidth survivable ring network achievable for New Jersey Bell. Making costly service interruptions caused by natural or man-made disasters virtually obsolete.  When NYNEX called, we installed for joint trials the world's first switching system capable of handling everything from narrowband voice to broadband video.  And with higher technology we offer higher service, including the industry's longest warranty on our F9600 ISDN platform PBX.  Matching resources with resourcefulness has helped make us a world leader in communications and computers. Now it's helping us provide the answers when America's Bells ring.



  
**FUJITSU**

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MEXICO



OFFICIALS CHARGE 11,700 WAL-MART ITEMS LACKED THE REQUIRED SPANISH LABELS

## NAFTA: A GREEN LIGHT FOR RED TAPE

U.S. retailers are running into delays, paperwork—and bureaucrats

It was a retailer's nightmare. Government inspectors made a surprise visit to Wal-Mart Stores Inc.'s new Supercenter in Mexico City and found thousands of products improperly labeled or lacking instructions in Spanish. The store was ordered shut for 72 hours. Company officials scrambled to correct the oversights, quickly enlisting U.S. Ambassador James R. Jones to relay his concern to top government officials. After just 24 hours, the store reopened, but Wal-Mart and other American retailers in Mexico got the message: The free-trade agreement may have opened the doors to Mexico, but don't expect to be welcomed with open arms.

It's a powerful lesson for foreign retailers venturing into Mexico. U.S. companies figured they could conquer retailing quickly, but instead the sector can sometimes be as prickly as a cactus. To varying degrees, Wal-Mart, Kmart, Price Club, and Radio Shack have all run into hassles. Mexico's army of bureaucrats, steeped in protectionist habits, is plaguing them with mountains of paperwork, ever changing regulations, customs delays, and tariffs of up to 300% on low-

priced Chinese imports favored by the discounters. To make matters worse, Mexican retail sales have been sluggish because of a yearlong recession.

With so many obstacles strewn on the NAFTA highway, some U.S. retailers are slowing their pace of expansion. "Our original plan was to have 200 stores throughout Mexico by July of 1995," says Guido Pentsy, director of Radio Shack de Mexico, a joint venture that is 49%-owned by Forth Worth-based Tandy Corp. and 51% by Mexican retailer Grupo Gigante. The company has 49 stores now, says Pentsy, "but we're on standby. We're being much more careful." Since it opened in Mexico in 1992, Radio Shack has had border-crossing and tariff headaches with many of its products.

U.S. companies are slowing their pace of expansion:  
The director of Radio Shack says: "We're in standby"

Wal-Mart's recent brush with overzealous inspectors has sobered company officials. The 200,000-square-foot Supercenter store that was raided carries around 80,000 products. Each is to be labeled in Spanish indicating the country of origin, content, and instructions, and in some cases, an import permit number. Inspectors charged that 11,700 pieces of merchandise lacked such labels. Wal-Mart executives say many of the targeted goods—40% or more—were purchased from a local distributor. Regulators insist that the retailer has ultimate responsibility for labeling.

**WARRING FACTIONS?** Although it publicly stands by its hard line, the Secretariat for Trade & Industrial Promotion (Secofi) is smarting from the incident. It's the agency that spearheaded NAFTA and is run by Jaime Serra Puche, one of Mexico's highest-profile Cabinet members. Sources say the Wal-Mart raid may have been the result of warring factions inside Secofi: While one department was talking to the company about labeling, another staged the surprise raid. Wal-Mart officials would not comment. But the U.S. Chamber of Commerce in Mexico is gently chiding the usually pro-foreign investor office with a "statement of common concern."

If any retailer can overcome the red tape, it's Wal-Mart. The company is sticking to plans with joint-venture partner, Cifra, Mexico's top retailer. The venture has opened three Wal-Mart Supercenters in Mexico City and Monterrey and will inaugurate a fourth in Guadalajara in August. The partners also operate 12 warehouse-style Sam's Clubs in Mexico City, Monterrey, Guadalajara, and three other cities. Plans call for another 10 this year. But Mexico's vagaries, plus the premium on well-situated retail space, have raised the hurdle.

Kmart Corp., which just opened its first two stores in Mexico City in May, has had its own run-in with bureaucracy. While the stores were under construction, inspectors ordered one site shut down for lack of an environmental impact study. When executives showed they had conducted such a study, officials allowed the site to reopen a day and a half later. "But we had sent the 1,700 workers home.... Construction was disrupted for eight days," says Juan Suberville, general director of Kmart de Mexico.

As lower NAFTA tariffs encourage more imports, American retailers are likely to run into more obstacles. But as Mexican consumers get used to the convenience of hypermarkets and discount prices, it will be harder and harder to stem the retail invasion from the north.

By Geri Smith in Mexico City

## ***Mitsubishi Luxury***

***You can take it to the Ritz.  
You can take it to Baja.  
Or you can take it up to 159 mph.\****



**D I A M A N T E   M O N T E R O   3 0 0 0 G T**





***The Mitsubishi Diamante LS.  
What it does for your eyes, it does  
for your other senses as well.***



*The interplay of lines and shapes communicates what might be called "elegant aggression"—a fitting expression of the driving experience that awaits you. There is nothing bland or reticent about the Diamante LS. Its rewards are emotional, sensual, as a luxury-performance sedan's rewards should be. A perfect embodiment of what Mitsubishi calls "The New Thinking in Automobiles."<sup>™</sup>*

*From behind the wheel it feels taut, yet supple, giving a vivid tactile impression*

*of the road, minus the sharp edges. The 7-way adjustable driver's seat comes with power assist and is easily contoured to your frame. Once adjusted, it soothes you as you drive. Precise orthopedics, with the opulence of leather.*

*The 24-valve V6 engine moves you along with exhilarating swiftness and gratifying quietness. Allowing you to fully appreciate the extraordinary stereo system, designed in cooperation with Infinity<sup>®</sup>, renowned makers of fine audio equipment. Meanwhile,*





Mitsubishi's patented ETACS-IV™ encompasses ten separate convenience features to enhance your



comfort and safety, from speed-sensitive windshield wipers to a comprehensive security system.

Dual air bags, ABS anti-lock brakes, side-impact protection, optional traction control, and an enormously strong passenger cage all contribute to your sense of security and well-being. Which, in turn, serve to intensify the boundless other pleasures to be enjoyed in the Diamante LS. For more information, or the Mitsubishi Dealer nearest you, call 1-800-55MITSU.





***The Mitsubishi Montero SR.  
Unruffled by mud, rocks, snow  
or the freeway on Monday morning.***



*A fine luxury car is expected to display poise, unflappability, masterful control. But only on reasonably passable roads.*

*The Montero SR displays those traits on roads that would not be passable for any conventional luxury vehicle. As well as surfaces that don't remotely qualify as roads, and in forbidding weather.*

*With Active-Trac™ 4WD, Montero even adapts to the severity of the conditions at hand. From a lightly*

*rain-slicked road all the way to deep mud and snow. And with Multi-Mode™ ABS, anti-lock braking is preserved in every drive mode. It's a highly versatile, ruggedly proficient luxury sport-utility. In essence, a "go-anywhere" luxury vehicle.*

*To go with its smooth, unruffled handling of almost any condition, there's a smooth 24-valve V6 engine capable of generating 215 horsepower. There's also a host of amenities,*





cluding a premium stereo system,  
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ontrol, three-row seating for seven,



and available leather and wood  
interior trim.

All this, with an off-road racing  
heritage that, in 1993 alone, produced  
five major victories for Montero,<sup>™</sup>  
including the Paris-Dakar Rally. Such  
versatility isn't what you expect from  
a luxury vehicle. But then, it's exactly  
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**The Mitsubishi 3000GT VR-4.  
It reaches 159 mph on a race track  
and is equally thrilling in a parking lot.**



There are roads on which it's perfectly legal to extract maximum performance from the 3000GT VR-4. Such roads are usually oval tracks, closed to normal traffic. But who knows? You may decide to seek one out someday.

On the other hand, you may well be content with the challenges offered by public roads—the slow-moving truck or the snaking back road, for example. Under such circumstances, terms like “all-wheel drive,” “four-wheel steering,”

“twin turbochargers,” “320 horsepower” and “six-speed gearbox” take on special meaning. You'd never believe an automobile could do such things. And with such gratifying smoothness and finesse.

The truth is, the 3000GT VR-4 represents new thinking in high-performance driving. It looks and performs like an exotic sports car, but isn't priced like one. Moreover, it's equally gratifying as a grand-touring sports car.





equipped with such luxury features as a power-adjustable driver's seat, leather trim, a superb Mitsubishi/Infinity®



stereo system and comprehensive safety equipment.

All of which make it enormously enjoyable to spend time in. Whether you're negotiating a race track, taking an all-day trip or just sitting still in a parking lot. And that says nothing about the fun you'll have watching heads turn. For more information on the 3000GT, or the Mitsubishi Motors Dealer nearest you, please call 1-800-55MITSU.



# **Mitsubishi introduces the Spyder. Luxury taken to the extreme.**



Mitsubishi Spyder

For Mitsubishi, new thinking is corporate policy. And if that thinking expands accepted parameters of luxury, so much the better. The new Spyder does just that, combining extremes in performance and design, with a major advance in what might be called "open-air technology."

One moment, the Spyder is a weather-tight hardtop. Push a button, and in approximately thirty seconds the top folds neatly, smoothly, and quietly into the trunk to create a stunning, open-top roadster. Push the button again, and the top reappears, latching snugly into place overhead. No bolting, unbolting, lifting or storing are required. It all happens automatically, via microprocessors and precision design. Making the Spyder the world's only production convertible with an automatically retracting hardtop.<sup>†</sup>

Of course, the Spyder perfectly exemplifies Mitsubishi luxury in every other respect, as well. From its extraordinary performance, to its opulent interior design, including rich leather trim and a magnificent Mitsubishi/Infinity® sound system with a 6-disc CD auto-changer. So, if your tastes in luxury go to the extreme, please note that the Spyder will be introduced in the fall of 1994. For more information, or the Mitsubishi Dealer nearest you, call 1-800-SPYDER1.

\*Road & Track, February 1994. Top speed obtained under test track conditions by professional drivers using special equipment and procedures. Mitsubishi does not advocate exceeding speed limits. \*\*Won by race-prepared, two-door version of the Mitsubishi Montero.  
†The Spyder's computer-controlled retractable hardtop was designed jointly by Mitsubishi Motors and ASC Incorporated and meets all federal safety standards for a convertible. Vehicle shown is a pre-production 1995 VR-4 model. SL model will also be available. Final production models, available fall 1994, may feature minor trim variations.



## **MITSUBISHI**

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## A LABOR LEADER BRITAIN CAN LIVE WITH?

Britain's Conservative Party seemed to run out of gas years ago. Yet it remains in power because the opposition Labor Party has never convinced voters it can do a better job. Finally, this stalemate could be coming to an end. On July 21, Laborites are expected to elect Tony Blair, a stylish-looking barrister, to replace party leader John Smith, who died of a heart attack in May. While Smith was widely respected, he was too cautious to take advantage of Tory self-destruction. The telegenic, Oxford-educated, moderate Blair promises to be different, and at 41 he is already being widely watched as Britain's next Prime Minister.

Taking his cues from Bill Clinton's 1992 U.S. campaign, Blair stumps for economic growth and job creation, public-private partnerships, and a better-educated workforce. He doesn't scare voters with talk of income redistribution and state ownership of industry. "We want a dynamic market economy," he says in interviews. This new realism is beginning to get business leaders' recognition. "The Labor Party has changed in important ways and is offering a set of policies which deserve our attention," says Confederation of British Industry Director Howard Davies.

With the next general election expected in late 1996, Blair has two years to convince voters that Labor is a safe alternative again. As one of the party's Young Turks, he has already laid some of the groundwork. Last year, he helped push through reforms to end union dominance of Labor. Previously, he was key to the fight against closed union shops. As shadow Home Secretary, he trumped Conservatives with tough positions on crime. Voters responded by overwhelmingly tilting to Labor candidates in June's European Parliament elections. And they're telling pollsters that they'd favor Labor over the Conservatives at the next general election.



BLAIR: WOOING DISAFFECTED TORIES

Of course, this edge could evaporate. In the last general election in 1992, the memory of nationalized industries and confiscatory taxes kept voters from returning Labor to power. A Labor plan to raise social spending and taxes badly hurt the party's standard bearer, Neil Kinnock.

Blair avoids that trap by refusing to reveal his fiscal plans. He'll only say he favors progressive taxation, adding that Prime Minister John Major promised not to hike taxes yet this spring raised them more than Smith's '92 plan would have. Blair isn't abandoning Labor's long-standing call for a minimum wage, but he reassures business by favoring a lower one for youth. He also is de-emphasizing full employment, another Labor shibboleth.

**STRONG SUPPORT.** Such vagueness has led to charges that Blair's agenda is lightweight. But he is ignoring the critics and playing more to the millions of disaffected Tories in the south, where unemployment is high.

In fact, Labor insiders say he has already begun his campaign with his "politics of change"—a pledge to move away from class warfare toward a partnership among business, government, and workers. And unlike Major, he is expected to have his party united behind him. While Tory Euroskeptics are constantly harass-

ing Major, Labor firmly backs Blair's embrace of the European Union. Blair is likely to work better with Europe's leaders.

If Blair has an Achilles' heel, it's his youthfulness and inexperience. He has been in politics just 10 years. He has never held a ministerial job. But Labor, which has been out of No. 10 Downing Street since 1979, has few members with solid credentials. Now it's up to British voters to decide if 15 years out of power is long enough—and if Blair has what it takes to break the spell.

*By Paula Dwyer in London*

### GLOBAL WRAPUP

#### BIG SWITCH IN UKRAINE

In a major upset, Ukrainian voters have tossed out President Leonid Kravchuk, a do-nothing former Communist boss, and have replaced him with the more dynamic but also controversial former Prime Minister, Leonid Kuchma.

Kuchma resigned in disgust as Prime Minister last fall, after the Ukrainian Parliament blocked his plans for free-market reforms. Now, the former missile-factory executive has returned to take another stab at getting his program through. Although he is not a shock therapist, it is likely that Kuchma will push for

major reforms including lower taxes, privatization of industry, tight money, and a new currency.

Ukrainians appear to be ready for these economic moves, having watched the economy fall into steep decline while Kravchuk dithered. Kuchma's election should also help cool down the country's tense relations with big neighbor Russia.

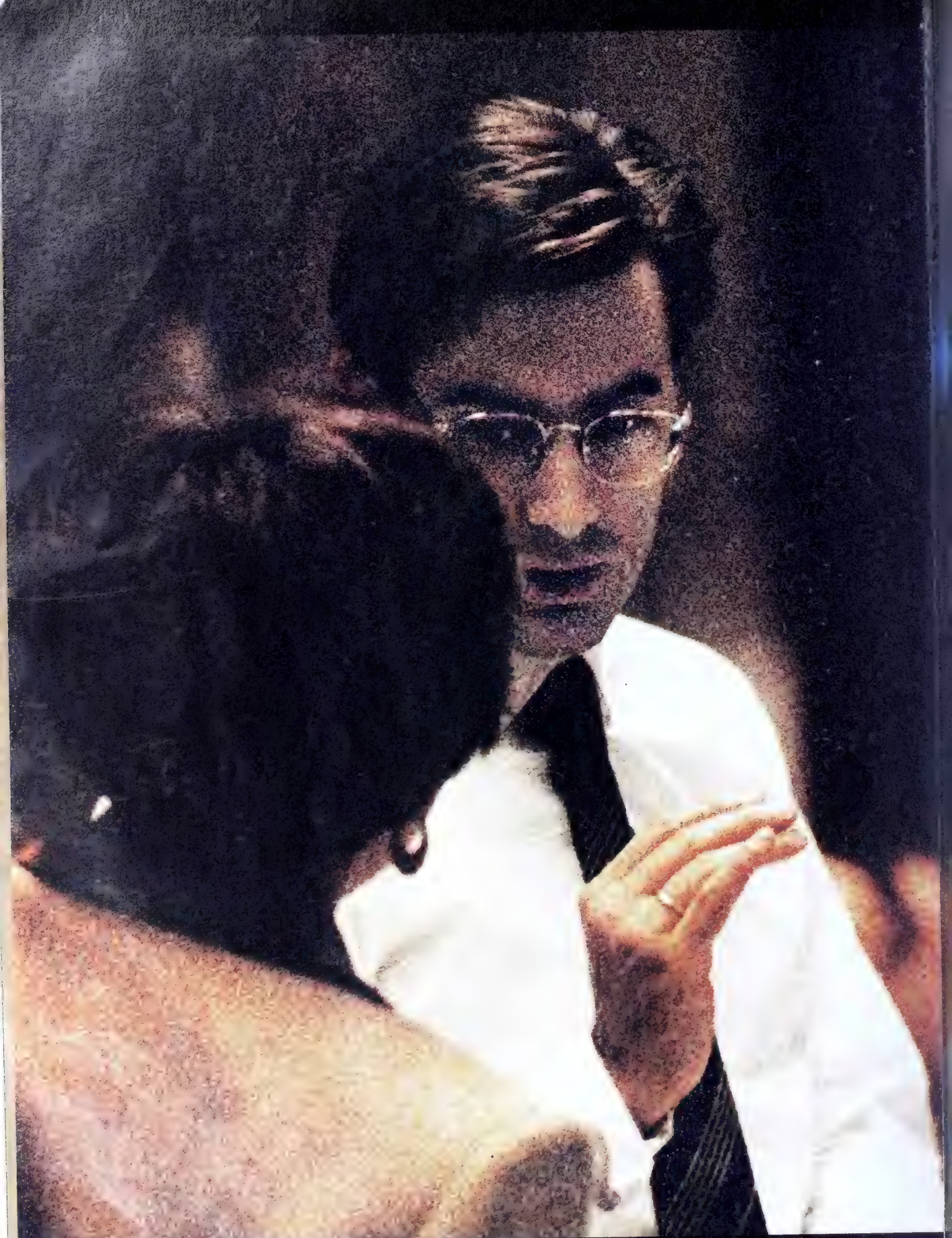
The question is whether Kuchma can also heal the split in his own country. He was mainly backed by the pro-Russian eastern Ukrainians, who applaud his plans to reintegrate the economy with Moscow's. Ukrainian nationalists are deeply opposed to such schemes. In fact, there are al-

ready rumors that terrorists plan to bump the new president off.

#### AT&T VS. BT

**T**ough competition between telephone giants AT&T and British Telecommunications PLC is set to begin now that Washington and London have said they'll grant licenses that let each invade the other's turf. Both companies are using London as a base to deliver worldwide services to multinationals. But with both companies offering many of the same services, some analysts predict the fight over market share could mean a cut in large companies' telecommunications bills by yearend.





Fixed income trading floor, Milan



# Depth

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# JPMorgan



# THE CRAZE FOR CONSULTANTS

COMPANIES ARE HIRING MORE SOOTHSAYERS—AND GIVING THEM BIGGER ROLES





**W**hen it comes to advice, you'd be hard-pressed to find a more avid listener than AT&T. Last year alone, the telecommunications company dished out \$347.1 million on "consulting and research services," more than Bell Labs annually spends on basic research—and nearly three times what it spent in 1990.

Among the nearly 1,000 consulting firms on AT&T's gravy train are some of the best-known soothsayers of big business. McKinsey & Co., the high church of consulting, took home \$24.9 million of that treasure, up from a mere \$8.4 million in 1990. Monitor Co., the strategic firm co-founded by Harvard business school's Michael E. Porter, got \$58.5 million—a sum equal to nearly two-thirds its total revenues last year. And Arthur Andersen received \$36.1 million.

As consulting bills go, AT&T's are...gigantic. It's also a sure sign that the advice game is alive and well. Even as corporations continue to lay off thousands of employees, they're hiring consultants in unprecedented numbers, creating an all-time boom in the field. "I have never seen this business any busier," says Roger Nelson, who heads up Ernst & Young's \$1.1 billion consulting business. "Change is driving the business. Companies are expanding, contracting, changing structures, and going global."

The signs of the consulting gold rush are all around: MBAs are being lured into the profession at record rates. Major new entrants, from IBM to Xerox Corp., are setting up their own consulting shops to work for third parties. Some downsized corporations are turning to consultants to do work they no longer have the in-house talent to perform. And once-brief assignments have grown into megaprojects involving dozens or even hundreds of consultants at multimillion-dollar fees.

**MAGIC WORDS.** Some companies that have rarely looked to outside help, such as Procter & Gamble Co., have signed million-dollar contracts with consulting outfits. And even some nations, undergoing a sort of reengineering of their own, are jumping on the consultants' bandwagon: Bulgaria recently awarded Chicago-based A.T. Kearney Inc. a 14-month assignment to help it establish a development strategy for its energy industry.

Only a few years ago, some industry observers worried that consulting was a maturing business incapable of growing much more than 5% a year. Now, firms such as Monitor and Coopers & Lybrand boast backlogs and are turning away work. The profession's leaders expect double-digit growth rates for at least the next five years. In 1993, some 80,000 consultants—from partners at elite global firms with offices around the world to displaced executives with fax machines in their basements—sold \$17 billion of advice. That's up 10% from the previous year, according to *Consultants News*, an industry newsletter.

To some extent, the increase is a self-inflating bubble:

Consultants beget more consulting as they fuel the marketplace with new ideas and management fads. The incantations of these necromancers can make managers worry that their rivals have gotten hold of some powerful new magic—so they had better buy a little corporate juju of their own. "The market also is overheated because of all the hype and excitement generated around reengineering," says John S. Clarke, chief executive of Boston Consulting Group Inc.

And consultants show no sign of running out of spells to cast. CSC Index Inc., the Cambridge (Mass.) firm that gave the word "reengineering" its buzz, is launching a new nostrum called "value discipline." The idea: To sustain leadership, a company must achieve "operational excellence," "customer intimacy," or "product leadership." Gemini Consulting, meantime, is pushing "business transformation," a concept the firm defines by the "four R's"—reframing corporate issues, restructuring the company, revitalizing and then renewing the organization and its people. Translation: It will cost you a lot of money.

**BIG BUCKS.** But the consulting craze is also being fueled by more than the catchphrase *du jour*. Roiled by unrivaled turmoil, companies increasingly are grasping for the hand of the consultant to steady them through the processes of going global, reengineering, rethinking, and shrinking. Coopers & Lybrand is helping Avon Products, H. J. Heinz, and Burger King crack the Chinese market. AT&T says a big reason for its heavy use of McKinsey and its ilk has been to help its efforts to globalize operations. Tenneco Inc. is spending \$3 million for each of seven consulting projects with a single firm to eliminate inefficiencies and costs. GTE Corp. paid Boston Consulting Group \$15.1 million in the past two years to help it reengineer its operations.

Yet even these lucrative assignments pale in comparison with other "transformation" projects—in which consultants guide the implementation of massive changes in a company's operations, systems, and culture—that can cost tens of millions in consulting fees each year. "We now have assignments worth \$30 million to \$50 million with contracts as long as three years out," says Francis Gouillart, a senior vice-president at Gemini Consulting, which has worked with Union Carbide, British Telecom, and DuPont. Adds George T. Shaheen, managing partner of \$2.9 billion Andersen Consulting: "The contracts are bigger, longer, and more complex. They require greater numbers of people and have a greater impact on the enterprise."

But just what is that impact—and exactly what is management getting for all the money it spends on consultants? Over the years, of course, the profession has taken its lumps—and rightly so. Although McKinsey declines all comment on clients, the firm has played a major role in advising the managements of such troubled companies as American Express, Digital Equipment, General Motors, and Sears Roebuck during their declines. It was McKinsey, for example, that was in-

## HOW MANAGEMENT CAN PLAY THE ADVICE GAME

With fees rising as engagements lengthen, clients are demanding more results from their consultants. How do you get your money's worth?

**SCREEN** Before hiring a consultant, rigorously interview and screen several candidates for the job and ask for at least three recent client references.

**RESEARCH** Visit client sites and ask executives for evidence of tangible benefits delivered by the consultants—and whether the company could have done as well on its own.

**JOIN IN** Insist that the analysis of the company's issues be done not solely by consultants but by client-consultant teams, with in-house managers outnumbering consultants.

**LEARN** Demand that consultants share their skills and knowledge with the teams. Any firm that insists on keeping its methodology or process secret is likely to seize too much control.

**INTERNALIZE** As the assignment moves into implementation, greater numbers of insiders should be involved in the effort to make sure the changes have staying power.

**SET LIMITS** Resist efforts by consultants to "scale up" a project to all other units of the company. If skills have been transferred to teams, insiders should be able to spread the ideas to other parts of your organization.

DATA: BUSINESS WEEK



strumental in GM's unsuccessful restructuring in the 1980s.

It's small wonder that consulting, as it was then practiced, often produced little result. Under the old model, senior executives called in the consultants. A team of four to six MBAs, often young, arrogant know-it-alls, interviewed scores of managers and came up with a report in three to six months. A few hundred thousand dollars later, the report was presented and quickly forgotten, gathering the proverbial dust on the shelf. "The insights you delivered were sometimes impractical," admits Gemini's Gouillart. "I was probably batting 25% to 30% on an implementation rate."

Now, however, the advice-givers say the business is changing in ways that allow them to deliver more value to their clients. Consultants are no longer just parachuting in, observing, and bailing out. They're forming teams with executives at client companies and working together to analyze problems and develop solutions. Assignments that were once narrowly focused have evolved into 18-to-24-month efforts that encompass strategy, operations, organization, and technology.

**TEAM PLAYERS.** And instead of producing dust-gathering reports, these client-consulting teams work together to perform the nitty-gritty implementation that's needed to deliver results. That was the case for General Systems Co., an \$18 million consulting firm of 80 professionals in Pittsfield, Mass., and its relationship with Tenneco in Houston. Tenneco's late chief executive, Michael H. Walsh, had called on the firm's services in the early 1980s to help weed out inefficiencies at Cummins Engine Co., where he was an executive vice-president. A few months after joining Union Pacific Corp. as CEO in 1987, Walsh hired General Systems again.

Within months of being recruited to the top job at Tenneco in 1991, Walsh called on General Systems for a third time. "Their approach is to pretty much become part of the fabric of the organization," says Richard L. Wambold, who worked closely with the consulting firm as Tenneco's vice-president

for operations. "They virtually live in your building."

Teams of Tenneco staffers and consultants began to examine specific divisions of the company, one by one, attempting to measure what General Systems calls the "cost of quality," the cost of inefficiencies and failures at the company. The objective: to reduce such costs to less than 10% of revenues, the benchmark set by such companies as Motorola Inc. and Xerox. The goal is to take out \$1 billion in annual costs. So far,

Tenneco has whittled its cost of quality from more than 20% to 14% or 15%, adding \$461 million to operating income in the past two years. In light of that, General Systems' fee of \$1 million to \$20 million over five years starts looking like a bargain.

**STRICTER SCRUTINY.** Today, nine General Systems people continue to work closely with teams of Tenneco managers as advisers. And each month, the firm's two principals, Armand and Donald Feigenbaum, attend the company's monthly performance-review meetings, which senior management measures progress. Such never-ending assignment in which consultants weave themselves into the company, will become standard, believes H. Michael Gleason, group executive of Electronic Data Systems Corp.'s management-consulting services. "We'll have relationships with clients that last 5, 10, or 15 years, with many work efforts in those periods." Small wonder that EDS is bullish on the business. Within the past year it has built a 3,100-person management-consulting practice from scratch, raising

competitors for staff and hiring 80 MBAs this year.

As the consulting assignments grow longer and the fees grow ever larger, clients have become more demanding. They're doing more homework before hiring a firm, and they're insisting on demonstrable, measurable results. British Telecom PLC, for example, took six months to select a consulting firm when it embarked on a vast effort to change its culture. A group of five executives led by Michael L. Hepher, group managing director, screened an initial slate of 16 major

## FIVE TRENDS IN CONSULTING



### 1. GUIDANCE IN TURBULENT TIMES

As managers grapple with change, consultants are finding it easier than ever to peddle the latest fads and ideas.

While reengineering remains the hottest chip in the advice game today, business soothsayers keep seeking the next big idea. Expect to hear a lot about growth and transformation.

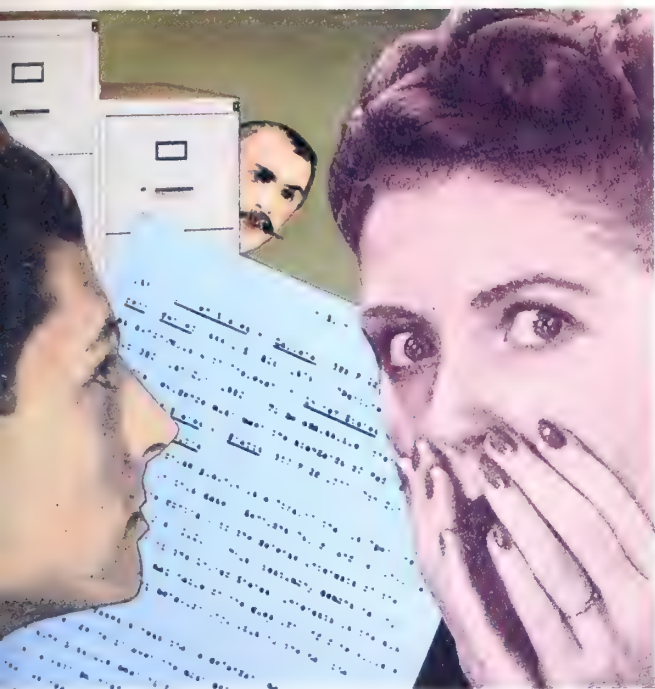
## HOW'S THIS FOR A CONSULTING BILL?

AT&T's regulated businesses spent \$347.1 million on "consulting and research services" last year, nearly three times the \$137.5 million it spent in 1990. Ten of the biggest winners:

DATA: COMPANY REPORTS

| Consulting firm                | Fees from AT&T 1990-1993 | Consulting firm                  | Fees from AT&T 1990-1993 |
|--------------------------------|--------------------------|----------------------------------|--------------------------|
| <b>McKINSEY</b>                | \$79.1                   | <b>GEOPARTNERS</b>               | \$10.1                   |
| <b>MONITOR</b>                 | 76.5                     | <b>CSC INDEX</b>                 | 7.0                      |
| <b>ANDERSEN CONSULTING</b>     | 56.7                     | <b>A.T. KEARNEY</b>              | 5.0                      |
| <b>MERCER MGT. CONSULTING</b>  | 24.8                     | <b>BOOZ ALLEN &amp; HAMILTON</b> | 4.3                      |
| <b>BOSTON CONSULTING GROUP</b> | 22.9                     | <b>DELOITTE &amp; TOUCHE</b>     | 4.0                      |





## 2. FIGHTING FEAR

To overcome suspicion and skepticism, consultants are increasingly working side by side with managers to analyze operations, draft recommendations, and implement changes. The days when the outside SWAT team worked in isolation, only to draft a report and leave, are over.

consulting. After all, a key strength of consultants is that they can bring a fresh and impartial eye to a company's problems. That may no longer be the case if they work in close-knit teams with clients for years instead of months. "When outsiders become de facto members of management teams, they lose perspective," says a prominent consultant. "They start to know Bill and Harry down the hall. Instead of helping a company gain a broader perspective, they create another room full of mirrors."

Many insiders say that's exactly what happened in the 1980s, when Boston's Bain & Co. invented the idea of "relationship consulting," in which the consultants become entrenched as quasi-insiders for years. At Chicago-based Baxter International Inc., say former

BT executives, Bain grew into such a powerful presence that the consultants became virtual line executives and were embroiled in the company's internal politics. Some of Baxter's own executives grouse that they could not gain approval from top management without first vetting their ideas with the consultants. Bain still works for Baxter, but its presence has been drastically reduced.

**FRONT-END WORK.** Many consultants now say that one reason previous long-term relationships failed was that the consultants sometimes tried to usurp the role of the managers. Still, the pressure on consultants to maintain those relationships may cause them to oversell their services. "There is a concern about being too dependent on consulting or a suspicion that the consultant will sell things the client doesn't need," concedes Brian Dickie, president of Booz Allen & Ham-

mer Baxter executives, Bain grew into such a powerful presence that the consultants became virtual line executives and were embroiled in the company's internal politics. Some of Baxter's own executives grouse that they could not gain approval from top management without first vetting their ideas with the consultants. Bain still works for Baxter, but its presence has been drastically reduced.

Starting in October, teams of consultants and BT managers began studying all the company's operations—from its basic strategic business objectives and overall vision to the efficiency of its communications network. "We're now designing the changes, piloting them, and testing them," says James A. Otterbeck, a Gemini consultant. Over the course of what's expected to be a two-year assignment, Otterbeck says, "we'll involve and work with over half of the client organization, or 10,000 employees."

The importance of the work is clear. "We have staked our future on the work of our joint teams," says Hephner, who believes the massive effort will result in cost savings of "hundreds of millions of pounds" and change the company's culture so that it will become more responsive to customers. BT won't say what it's paying Gemini for the job, but consulting-industry sources believe the assignment will cost tens of millions of dollars and involve dozens of Gemini consultants.

Some observers worry that the trend toward such long-term relationships could undermine some of the benefits of



## 3. STEPPING INTO THE BREACH

To fill management gaps created by downsizings, companies are turning to consultants for help on some projects that would once have been done by staffers. Consultants then act as sophisticated temps, replacing axed execs and managers.





ilton Inc. "We've exploited these vulnerabilities, and so have other firms."

The traditional front-end work to "diagnose" a company, as consultants put it, tends to be relatively cheap. The big fees come later, as they swarm over the company for the design and implementation phases. In 1991, when GTE sought Boston Consulting Group's help to reengineer its operations, GTE handed out \$2.4 million to its consultant. The next year, as planning and early implementation was rolled out, fees jumped to more than \$10.9 million. Last year, as more GTE managers assumed greater responsibility for making the changes, the sum fell to \$4.1 million.

Critics say the prospect of such hefty fees distorts the role of the consultant. "The job of a consultant is to put him- or herself out of a job," insists Gerald Ross, the co-founder of Change Lab International, a small consulting firm. "You shouldn't build a dependency with the client for years. But most of these big firms now want to hook you in and get on the gravy train." The process seems to work best when the consultants are willing to transfer what they know to the client. "You don't want the consultants to do all the thinking and the client to do all the doing," says BCG's Clarkeson. "We're ahead of the game if we pass on as much as we know to the client, rather than saying we'll remain the experts and do it for you."

That view is endorsed by W. Sanford Miller Jr., chief marketing officer for CIGNA Corp.

## 4. ONGOING ASSIGNMENTS

To tackle major change efforts, consultants are increasingly being engaged not just for months but years. Projects once limited to a single area of focus now often involve the convergence of strategy, operations, organization, and technology issues.

"What consulting firms have to do today is look at an assignment as an educational experience for the organization they are working for," says Miller. "After having a consulting firm in, people in the company should be smarter and more familiar with the key issues raised in the assignment."

A few consultants, however, worry that sharing too much of their knowledge with clients will take some of the mystique out of their business. "Because the projects are bigger and longer, you're getting so close to your clients that they come to know all your tricks," says Fred D. Wiersema, a vice-president at CSC Index. "Familiarity can breed contempt. You're no longer the guru with all the clever ideas."

**BOOZ HOUNDS.** Some companies have indeed decided that the gurus hold few secrets and are experimenting with form-

ing their own groups of internal consultants culled from insiders and outside hires. "The truth is, it's not difficult to go into a corporation and cut money out of it," says Terry M. Ennis, who heads up an internal consulting unit with 50 staffers at DuPont Co. "But it's damn difficult to change the work processes and get results that are sustainable. Very few consultants can help you with that."

Most consultants, of course, bridle at such ideas. They say they bring objectivity, experience, expertise, and people power to critical management issues and that they're giving management its money's worth. AT&T, not surprisingly, defended the \$347.1 million in fees it paid out for consulting to its reg-



## 5. SOARING FEES

As assignments lengthen, fees are skyrocketing. It's not uncommon for large corporations to pay tens of millions of dollars a year in consulting fees. Some large-scale projects can cost as much as \$30 million to \$50 million over five years.

ated businesses last year. Much of the money went to help expedite our movement into the global marketplace," says Patricia Cox, an AT&T director who buys consulting services for its communications group. "If we were to do this on our own, it would have taken us substantially longer to capitalize on the different business opportunities in the world."

Procter & Gamble takes a similar view of its recent use of consultants to make its worldwide operations more efficient. Because the company lacked the knowhow to systematically eliminate layers of management and people, it brought in a

team from Booz Allen. "They knew the steps and the process you had to take," says Gerald V. Dirvin, an executive vice-president at P&G who headed the effort—and retired at the end of it, saying it was a way to cut a layer of management. "We would have stumbled along trying to invent something."

Some 35 to 40 consultants from Booz worked with about 120 P&G executives on the cost-reduction effort, which was aimed at taking out \$750 million in annual overhead costs. Together, the consultants and managers combed the company,

## HOW 10 LEADING CONSULTING FIRMS STACK UP

The consulting market is becoming ever more complex. The advice-giving arms of the Big Six accounting firms, which used to focus on information systems, have recently made substantial investments to expand into management consulting—with mixed results. Mergers among several prominent players, such as United Research Co. and MAC Group, similarly reflect efforts to build the all-purpose consulting firm.

Although some firms contend that clients want so-called end-to-end packages that offer everything from strategy to information systems, the marketplace has shown otherwise. One of the fastest-growing firms, for example, is Boston Consulting Group Inc., which has stuck to its roots in strategy and organization.

Nonetheless, new entrants with little expertise in management consulting have rushed into the field. Among the

fastest-growing firms are IBM and Electronic Data Systems Corp. Rivals sneer that IBM is in the game simply to sell its hardware and that EDS is using management consulting as a lure to get more systems work and outsourcing contracts. Whether drawn to the business by higher profit margins or the chance to sell core offerings, they are helping to shake up the marketplace. Here's the rundown on 10 leading players—by size and influence.

| Firm                                         | 1993<br>revenues<br>Millions | 3-year<br>growth<br>Percent | No. of<br>consultants | Recent clients                                  | Highlights                                                                                                                                                                             |
|----------------------------------------------|------------------------------|-----------------------------|-----------------------|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ANDERSEN CONSULTING</b><br>Chicago        | \$2,876                      | 53%                         | 22,500                | Astra/Merck, Caterpillar, Florida Power         | Deploys armies of consultants on jobs around the world; still trying to leverage its core strength in info systems to gain greater share of the management consulting market           |
| <b>COOPERS &amp; LYBRAND</b><br>New York     | 1,351                        | 50                          | 7,650                 | AlliedSignal, H.J. Heinz, Quaker Oats           | After Andersen, the No. 2 player of the big accounting firms; one in four jobs involves cost reduction; revenues divided in thirds among strategy, reengineering, and systems fields   |
| <b>McKINSEY</b><br>New York                  | 1,300                        | 31                          | 3,100                 | American Express, AT&T, Mellon Bank             | The pricey high priest of strategic consulting; just elected first non-Westerner to lead firm; acquisition of info-tech consultants IDG dubbed a failure because of mass defections    |
| <b>BOOZ ALLEN &amp; HAMILTON</b><br>New York | 800                          | 54                          | 4,600                 | P&G, Volvo, Broken Hill Proprietary             | New leadership team hoping to revitalize this sleeping giant of consulting biz; strategy is to narrow client base to about 200 of 1,500 companies it has worked for in past five years |
| <b>GEMINI CONSULTING</b><br>Morristown, N.J. | 516                          | 128                         | 1,700                 | DuPont, Union Carbide, British Telecom          | Fast-moving, ambitious firm combining shop-floor operational strengths of United Research and high-level strategy practice of MAC Group; owned by French holding company Sogeti        |
| <b>ESC CONSULTING</b><br>Cambridge, Mass.    | 470                          | 96                          | 2,600                 | Agway, Amoco, Hallmark, PepsiCo                 | Put buzz in the word "reengineering," using it to speed up growth; still heavily technology-based but trying to create next hot management concept to sustain growth                   |
| <b>BOSTON CONSULTING GROUP</b><br>Boston     | 340                          | 114                         | 1,250                 | Aetna, GTE, Nynex                               | Successfully rode idea of time-based competition into reengineering hoopla; player behind many major cost-reduction efforts; growing rapidly overseas                                  |
| <b>A.T. KEARNEY</b><br>Chicago               | 278                          | 84                          | 950                   | GM, Sears, Sony, Unilever, Warner-Lambert       | One of the fastest-growing firms, with an even mix of strategy and operations work; recently won public kudos from GM chief for its advice on auto maker's purchasing operations       |
| <b>MERCER MGT. CONSULTING</b><br>New York    | 134                          | 34                          | 600                   | British Rail, Chemical Bank, Sara Lee, U S West | Marsh & McLennan unit views "growth" as the next hot area; combo of former Strategic Planning Associates and Temple Barker & Sloane; strengths in strategy and change                  |
| <b>MONITOR</b><br>Cambridge, Mass.           | 90                           | 80                          | 340                   | AT&T, Pacific Telesis                           | Results-driven strategists tap B-school profs for advice; co-founded by Harvard strategy king Michael Porter; now declining new clients because of backlog                             |

DATA: BUSINESS WEEK, CONSULTANTS NEWS



analyzing operations and identifying ways to reduce costs and speed decision-making.

Unlike many companies today, however, P&G decided large-ly to implement the recommendations on its own. Instead of keeping Booz around for years, P&G kept the assignment to roughly 12 months. Using consultants is "a quick crutch that people get into," Dirvin says. "They say, 'Gee, I haven't got the answer right now, and it makes my head hurt to think that hard.' So they hire someone to think for them."

In the booming advice game these days, there's certainly

no shortage of cogitating and conceptualizing by the consultants—especially at AT&T and other companies that are forking over small fortunes on outside help. Because these mega-projects are such a recent phenomenon, it's still a little early to know whether the new, more engaged and expansive style of consulting will pay off any better than the older, more superficial model did. But even if it turns out to be another disappointment, rest assured that the consultants will cook up something else.

*By John A. Byrne in New York*

## KEEPING COOL IN FRONT OF THE CONSULTANTS

**T**he arrival of consultants can send shock waves through the ranks of any corporation. After all, many engagements are at heart cost-cutting exercises that may force thousands of employees to start scouring the want ads. "Like it or not, consulting firms are used by companies to make ugly decisions executives don't want to make themselves," says W. Sanford Miller Jr., chief marketing officer at Cigna Corp. "That's a huge business for consulting, and it's a way for management not to get blood on its hands."

So what's a manager to do when a consultant comes calling? Is it the opportune time to trot out all those ideas that your boss has repeatedly rejected over the years? Should you open up and tell all? Or should you be careful not to criticize the company and its management?

For starters, you should know who you're dealing with. Do some research on the firm before the consultants arrive. "Prepare yourself for the interview," advises David Lord, editor of *Consultants News*, which covers the business. "Find out who the consultants are and what they've been asked to do. Discover what they've done in similar engagements at other companies, and then you can make some informed decisions about what to do." It also pays to know which senior executive was responsible for bringing in the consulting firm. That could tell you a lot about their agenda.

**DON'T GO OVERBOARD.** Otherwise, according to consultants, the best advice is to be open and honest. That's especially true if the consulting firm's assignment is aimed at improving the company's operations rather than outright downsizing—or "chain saw consulting," as it is sometimes referred to. As John M. Jacobs, who is in charge of the management-consulting practice at Coopers & Lybrand, puts

it: "It's hard to understand why anyone would be close-mouthed. I would want to be linked as closely as possible to the outside consultant because it might enhance my position in the company." But don't go overboard: You shouldn't be too candid unless you are absolutely sure that your comments will be treated confidentially and that they cannot be traced

### WHAT TO DO WHEN THE EXPERTS COME CALLING

- ▶ Think carefully about who hired the consultants and why.
- ▶ Never appear defensive or snide.
- ▶ Be helpful and candid, but be careful with any serious criticisms of your superiors or the organization.
- ▶ Share your ideas with the consultant, even if you've had trouble selling them to your boss.
- ▶ Volunteer to sign up for client-consulting teams. That way, you'll play a role in the "change effort." You might even avoid becoming a victim in a cost-reduction drive.

DATA: BUSINESS WEEK

back to you—and that isn't easy to guarantee.

Even if you're not likely to completely tell it like it is, never appear cynical or hostile. Such behavior is likely to backfire. "This is a people business, and a lot of middle managers don't understand that," says Tom Melcher, a former McKinsey & Co. consultant. "I've seen managers who were very defensive, and they really hurt themselves."

It may, in fact, take a bit of pa-

tience to keep an open attitude. Many times, you'll be interviewed by young, newly minted MBAs who know little if anything about your industry or your organization. Try to be helpful in educating the consultant about your operations and how they compare with what your competitors are doing. The more knowledgeable you appear, the more likely you'll be viewed in a positive light.

**THINKERS AND DOERS.** Be open to the need for change and improvement. That's why most consulting firms are brought into an organization. Managers who are protective of the status quo are likely to be seen as "in the way" or resistant to change because they fear the loss of their own personal power or status.

Most consultants agree that managers should willingly share their ideas about speeding decisions, producing new products, or increasing the company's profitability. In some cases, consultants can give a boost to that idea of yours that you could never get off the ground.

Worried that you'll receive no credit for your views? "I don't think good people should be overly concerned about having their ideas stolen, because good people always have good ideas," says Jacobs. If the consultant agrees with your opinions, you'll likely get credit. If not, you may very well impress the consultant as a thinker and doer who is valuable to the organization.

If the project calls for client-consulting teams, you should volunteer to become part of the "change effort." For one thing, say consultants, you'll probably play a role in what your organization is trying to accomplish. And at the very least, you may pick up skills from the consultant that could well make you a more desirable candidate on the job market if you finally get the ax.

*By John A. Byrne in New York*

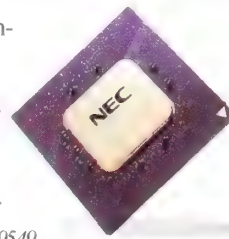
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*Now, if you'll excuse me, I'm off to have dinner with my family."*



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# THIS INVESTMENT BOOM GIVES THE ECONOMY RUNNING ROOM

Washington's numbers miss \$50 billion that business is pouring into telecom

**B**ruce M. Sieben certainly knows a good deal when he sees one. As director of telecommunications for financial-services giant Merrill Lynch & Co., Sieben recently replaced Merrill's entire New York voice, data, and fax network with the latest technology. The price: one-third of what the original network cost five years earlier.

Merrill is not alone. For large corporations and small home offices alike, fax machines, modems, and computer networks are becoming faster, more powerful, and perhaps most important—cheaper. Phone companies are buying ever-increasing amounts of central office switching and transmission capacity for ever-decreasing prices. Indeed,

the true price decline was about 35%.

The government's overestimate is leading to serious errors in the two key elements that determine the inflation outlook. First, the overall rate of inflation over the past year is far lower than what the government is reporting. Second, and no less important, the level of private investment in equipment is far higher than official numbers show. Higher investment makes it easier for the economy to grow without hitting bottlenecks that would cause inflation.

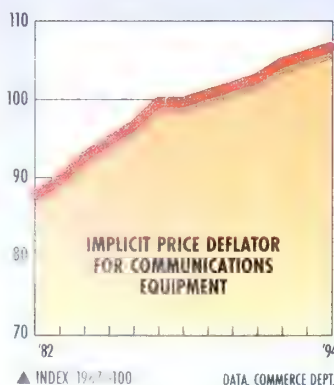
According to the government's numbers, investment in communications equipment is now running at a rate of \$67 billion annually in 1987 dollars.

would chop three-tenths of a percentage point off inflation over the past year. That would bring the rate of inflation, as measured by the gross domestic product deflator, down to only 1.6%, the lowest level since 1963. With numbers such as these, interest-rate hikes make the Federal Reserve look more overzealous than ever.

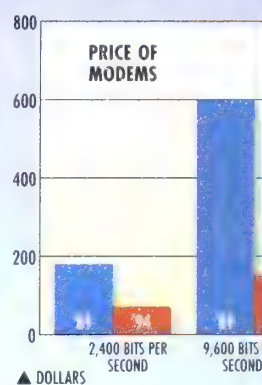
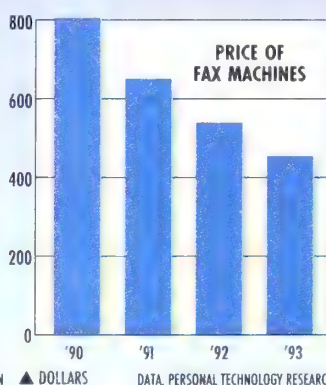
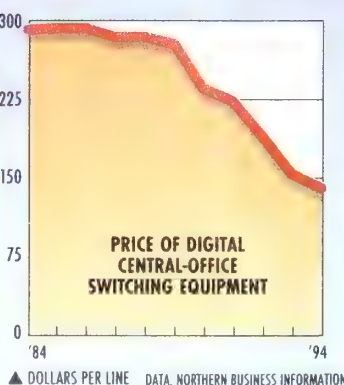
There's ample evidence that high-tech communications gear is



**THE OFFICIAL DATA  
SHOW PRICES RISING...**



**...BUT, IN FACT,  
COMMUNICATIONS EQUIPMENT COSTS FAR LESS...**



the fast-dropping price of communications equipment is driving the Internet boom, the coming expansion of two-way video services to the home, and the entire web of new services and connections that is known as the Information Superhighway.

**SERIOUS ERRORS.** But search as you may, there's no trace of this broad-based price decline in the government's official price numbers. Instead, unable to keep up with rapidly changing technology, the government is reporting that the price of communications equipment has actually risen by some 7% since 1989. By comparison, BUSINESS WEEK estimates that

But adjusting for the true decline in prices shows that companies are, in fact, buying far more telecommunications equipment than the official statistics now indicate—\$50 billion worth more a year. So huge is the outlay for telecom equipment that the adjustment would boost the economy's total spending on equipment by about 10% and raise net equipment investment from 2.8% to 3.4% of gross domestic product. That's by far the highest level in the last 40 years.

Moreover, the new analysis shows inflation to be much less of a threat than previously believed. Accounting for the drop in price of telecom equipment

getting cheaper by an average of about 10% a year. For example, take digital switches, the nerve centers of today's telephone systems. These are essentially special-purpose computers that allow a phone company to connect one phone with any other and to provide special services such as call waiting. Starting around 1990, regional telephone companies such as Ameritech Corp. began negotiating more effectively for lower prices from switch suppliers such as AT&T and Northern Telecom Ltd. "The price per line for central-office switching dropped very substantially," says Howard Wallace, senior consultant



Arthur D. Little Inc. in Cambridge, Mass.

Northern Business Information, a unit of McGraw-Hill Inc., estimates that the price per line to install a digital switch dropped from \$277 in 1989 to \$140 today, a 50% decline over five years. But that's not what the U.S. government says: The Bureau of Labor Statistics reports the price of digital switches rose by 3.1% over the same period.

The price declines are even more dramatic for fiber-optic cables, which use light waves to provide high-capacity, long-distance links. Just a few years ago, the cost of a mile of fiber cable, plus the associated electronics, was sky-high. But the price per unit of transmission capacity for fiber optics has been dropping by 40% a year, estimates Nim K. Meunier of Bellcore, the research arm of the regional telephone companies. That's as fast as the prices of computers are falling. "The semiconductor industry and the light wave industry are on the same track," says

## The government says telecom equipment prices rose by 7% over five years. They actually fell by 35%

ubiquitous fax machine, which has become an essential part of almost every business. The price of a basic fax machine has dropped 75% over the past five years, notes Casey Dworkin, general manager of Personal Technology Research, a market-research and consulting firm in Waltham, Mass. Cellular telephones, too, have been plummeting in price, pulled down by the "same silicon improvements that have been driving the computer industry," says Rick Bean, an associate partner at Andersen Consulting.

And consider teleconferencing, the rapidly growing technology that enables companies to hold long-distance meetings without flying people around the country. In 1989, a teleconferencing system capable of handling groups of 8 to 12 people cost about \$80,000. Now, a comparable system costs

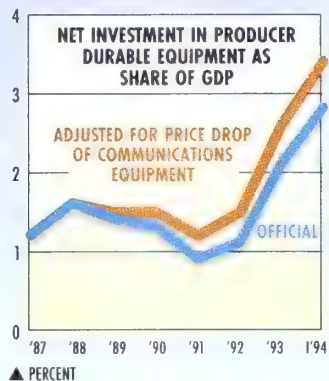
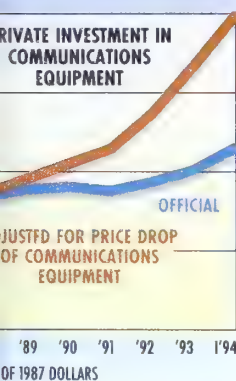
communications equipment has been dropping. Even the humble desk telephone costs 10% less than it did five years ago. "The general trend has been quite a continuous reduction in price. I can't think of a single exception," says Eli M. Noam, a telecom expert at Columbia University's Institute for Tele-Information. Adds Sieben of Merrill Lynch: "The unit cost of telecom equipment has been consistently trending downward at about 10% each year."

How did these pervasive price declines evade the attention of the price mavens at the Bureau of Labor Statistics, where the government's price numbers originate? The reason, in part, is that the BLS has trouble tracking prices in industries with fast-changing technologies. "There are major problems with the government's ability to measure the impact of new products and quality improvements," says Michael J. Boskin of Stanford University, who was head of the Council of Economic Advisers under George Bush. "Our statistical system has a difficult time keeping up."

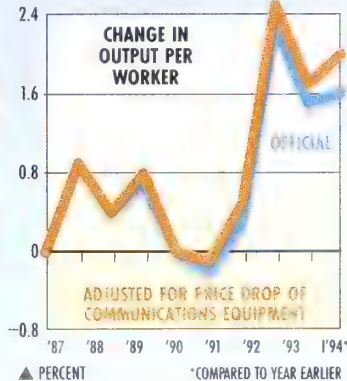
Still, that's not the whole story behind the government's oversight. The BLS does in fact have a special technique, "hedonic pricing," that allows it to adjust price numbers to take account of improvements in the quality and speed of

## COMMUNICATIONS INVESTMENT

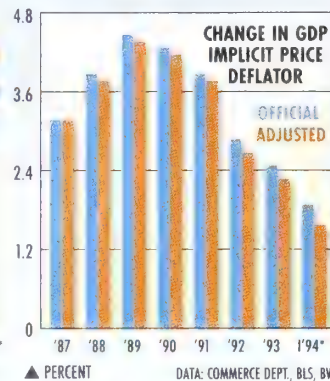
### ...MORE HAS BEEN ...BOOSTING INVESTMENT ...TO RECORD LEVELS...



### ...LIFTING PRODUCTIVITY...



### ...AND MAKING INFLATION LESS WORRISOME



mothy J. Regan, director of public policy for Corning Corp., the world's largest maker of optical fiber.

The upshot of these price declines is that telephone companies, cable-TV companies, and large corporations are building much more data, voice, and picture transmission capacity at a lower price. For example, Ameritech, the Chicago-based regional telephone company, boosted its purchases of fiber-optic cable by 50% in 1993 compared with 1992, while paying only 10% more.

You don't have to be a telephone company to benefit from the falling price of communications equipment. Take the

some \$40,000, according to Personal Technology Research.

In some cases, improvements in technology mean that companies can buy much more transmission capacity for the same amount of money. Modems are the devices computers use to pump data through telephone lines. Five years ago, a modem that transmitted data at 2,400 bits per second cost about \$200. Today, it's possible for the same money or less to get a modem that transmits at 9,600 bits per second—four times the capacity. This translates directly into substantially lower telephone bills for businesses.

The price of almost every piece of

products. Hedonic pricing has been used by the BLS to measure computer prices since 1985. Indeed, the price index for computers and office machinery shows a decline of about 12% annually over the past five years.

But the BLS has not used hedonic pricing for communications equipment, even though telecom gear and computers share the same underlying technology. Why not? The reason, in part, is simply lack of money. The government's statistical agencies have barely enough resources to keep up with the current data, much less mount new statistical initiatives. Equally important, however,



the government's statisticians were misled by the long-standing torpor of the telecom equipment market, where prices didn't start dropping in earnest until the late 1980s. That's when the full effects of deregulation and the 1984 AT&T breakup were felt. In effect, the government was right seven years ago to pay little attention to communications equipment, but it's making a major mistake today.

BUSINESS WEEK's estimate of a 35% decline in prices over the past five years may be conservative. In arriving at its figure, BUSINESS WEEK estimated that 60% of communications investment goes for high-tech gear, which is dropping in price by about 10% annually, or roughly the same rate of decline as computers. The other 40% of communications equipment was assumed to be rising in price at the original rate the government reported. In fact, the data suggest that an even larger share of spending was concentrated in high-tech equipment.

The revised numbers have profound consequences for the most important problem facing economic policymakers today: How fast can the economy grow without triggering inflation? Pessimistic economists believe that over the long run, the economy can sustain only a 2.5% growth rate. Optimistic forecasters, by contrast, estimate that the U.S. can manage growth rates that are as high as 3.5%.

**NEW OUTLOOK.** The pessimists argue that net investment remains at historically low levels, and it is investment in new plants and equipment that ultimately determines growth. The published numbers say that the pessimists have a good case: Net of depreciation, equipment investment over the past two years has averaged only 1.6% of GDP, according to the government, barely higher than the postwar average of 1.5%. That's not enough to put the economy onto a fast growth track.

But measure the price of communications equipment more accurately, and the whole outlook for the economy changes. Companies are, in fact, buying more and better equipment for the same money, so net investment is soaring. And it's investment in new capacity that increases the economy's long-term growth rate.

It's all too easy to accept the government's published numbers on prices and investment as holy writ. And judging by its actions in boosting interest rates, the Federal Reserve seems to be doing just that. But in the face of the greatest telecommunications boom in history, the Fed would do well to take another look at what American business is actually doing.

*By Michael J. Mandel in New York*

# The Corporation

STRATEGIES

## CAN A TUNE-UP MAKE CHEVY A CONTENDER?

A revamped lineup will help, but the carmaker is far behind Ford



CHEVY CHIEF PERKINS ATOP A NEW MODEL BLAZER: HOLDING THE LINE ON PRICE

**Y**ou might think Jim Perkins would be sweating profusely.

Chevrolet's general manager has watched sales wither at the huge General Motors Corp. division—while the rest of the industry has surged ahead at its fastest clip since 1987. Indeed, Chevy's 16.1% U.S. market share in June was down 2 percentage points from a year ago. Worse yet, the number has fallen steadily since 1990.

Far from being spooked, however, the smooth-talking Texas native is the most upbeat he has been since taking the helm in 1989. Three new high-volume models due in showrooms by yearend—the midsize Lumina, compact Cavalier,

and Blazer compact sport-utility—should help reverse Chevy's slide and contrilute much needed earnings. The new models "put us back in the thick of the battle," says Perkins, who predicts that Chevy will overtake archrival Ford to become again the best-selling brand in America.

**BIG LIFT.** Texas-size hyperbole? Perhaps. Competition in the heart of Chevy's markets is fiercer than ever, and the carmaker has been hurt by slow changeovers in key factories that are tooling up to build the new models (BW—July 11). Still, the new products, a fresh ad campaign, and aggressive pricing could boost Chevy's sales by 100,000 cars and light trucks and win back more than half a point of market share by the end of 1995, figures Christopher W. Cedergrer, an analyst with AutoPacific Group Inc. in Santa Ana, Calif. And Perkins says that's just the start of a comeback.

That would be a big lift for parent GM. Chevy alone still sells more vehicles than Chrysler Corp., the world's No. 6 carmaker. And Chevy must b

**Chevy's Camaro and S-10 pickup are sellouts, and its 4,700 dealers give it great marketing reach**



ong if GM is going to continue turning around its struggling North American operation, which is edging into the black after years of losses. The revamped 1995 Lumina may bring in \$3,700 in gross profits per vehicle, says Lehman Brothers Inc. analyst Joseph S. Phillippi. The new model, which was costly to build and required rebates and other incentives, lost up to \$2,000 apiece. At 100,000 cars a year, that difference translates to as much as a \$1.4 billion drop in GM's gross profits.

Chevy's new iron could finally make the division competitive in crucial, high-volume segments. Through much of the late 1980s, Chevy's new-model programs were delayed as parent GM diverted cash to other divisions. That changed a couple of years ago. While the 1995 Lumina won't win any styling awards, it finally gets dual air bags—gradually matching the competition. That addition alone might add 60,000 annual sales to corporate fleets, which require them. The Blazer's tuned interior and smoother ride could attract more of the well-televised suburbanites who have been snapping up Jeep Grand Cherokees and Ford Explorers. And the entry-level Cavalier gets a zippier engine and its first major face-lift in 10 years, both essential for luring more of the younger buyers Chevy desperately needs.

Perhaps these cars' most attractive feature will be their price. Perkins has added new equipment while trying to avoid sticker shock. Take the Lumina: The base car, with new standard air bags, starts at \$15,995—or just \$365 more than the 1994 model. And all Chevy prices include the \$500 shipping fee, which competitors lack on later.

**KEY MESSAGE.** Chevy can make a profit at such aggressive prices because the new models cost less to manufacture. The 1995 Lumina has 900 fewer parts than its predecessor and takes 30% less labor to assemble. Such efficiency was achieved partly by making many popular features standard equipment so workers build fewer complicated variations. Chevy officials figure a \$16,500 Lumina with a few options such as air conditioning will account for 65% of the model's sales.

Consumers will be deluged with Chevy's "value pricing" message. Ads featuring specific models will begin in August, and with Chevy's mammoth \$600 million annual budget, they'll make plenty of noise. Moreover, Chevy will lend Lumina to 100 families for a week, give them video cameras, and ask them to record their impressions. Some of the footage may show up in future TV spots. Revamped products aside, Perkins

## A TRIO OF NEW MODELS...

| MODEL                                   | BASE PRICE |
|-----------------------------------------|------------|
| <b>LUMINA SEDAN</b> 4-door midsize      | \$15,995   |
| <b>MONTÉ CARLO COUPE</b> 2-door midsize | \$17,295   |

**Main competitors:** Ford Taurus, Chrysler's LH sedans, Honda Accord, Toyota Camry, Nissan Altima



|                                          |          |
|------------------------------------------|----------|
| <b>S-10 BLAZER</b> 2-door, 2-wheel drive | \$18,630 |
| 4-door, 4-wheel drive                    | \$22,438 |

**Ford Explorer, Jeep Cherokee/Grand Cherokee**

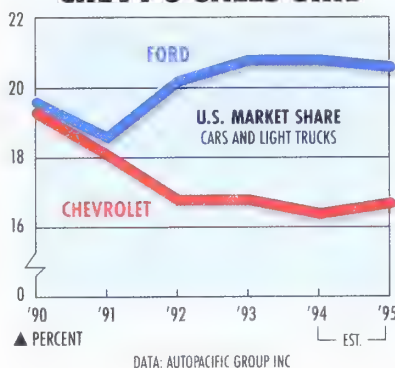


|                                    |          |
|------------------------------------|----------|
| <b>CAVALIER</b> 4-cylinder compact | \$10,545 |
|------------------------------------|----------|

**Ford Escort, Chrysler's Neon, Saturn, Toyota Corolla, Nissan Sentra, Honda Civic**



## ...COULD REVERSE CHEVY'S SALES SKID



still faces some rough going. "We haven't won any wars," he concedes. GM's factories have been painfully slow at cranking out the new models: The Oshawa (Ont.) factory that has produced Lumina since Feb. 14 still isn't up to full speed. Dealers are screaming, but Perkins says the factories will remain focused on quality, not volume.

Chevy also faces intense competitive pressure. Nemesis Ford Motor Co. has a

string of new products on the way. The popular Explorer gets a makeover this fall, and Ford's marketing gurus are eyeing a less-expensive, entry-level version—precisely the market Chevy targeted. The critically acclaimed Contour sedan, also due this fall, is slightly smaller than the Lumina but will compete on price. Next fall, Ford will unveil an all-new version of its best-selling Taurus sedan, and analysts who have seen it say the car should be a smash. "We don't plan to give up [leadership] without a hell of a fight," says Philip M. Novell, Ford's general sales manager.

**PAMPERING.** Low prices, meanwhile, may not be enough to pry buyers away from Japanese brands. Models such as the Honda Accord and Toyota Camry still have a more finished look and refined feel than Chevy's models. And aggressive lease deals have masked the roughly \$2,000 price advantage of domestic carmakers.

Perhaps most daunting, Chevy must improve the way it treats customers. Hard-sell tactics are often still the rule at Chevy dealers, while other carmakers are trying a kinder, gentler approach. The division ranked below the industry average in the most recent customer-satisfaction survey by J. D. Power & Associates Inc., the Agoura Hills (Calif.) market-research company.

To boost Chevy's reputation, Perkins is adopting techniques pioneered by GM's Saturn Div., a satisfaction leader. To make customers feel pampered, he's trying to give service a more personal touch. When Chevy recalled 45,000 S-10 pickups recently to fix a potentially hazardous gas filler pipe, most customers were contacted personally by phone and offered loaners. The trucks were returned washed—and with a full tank of gas. A new dealers' training program to encourage less aggressive sales tactics, however, may lack the teeth to make it effective. Although rivals such as Chrysler use cash incentives to enforce such programs, Chevy's is strictly voluntary.

Even with those difficulties, Chevy seems back on track. Spiffed-up models already in showrooms—the Camaro and the S-10 pickup—are sellouts. Moreover, Chevy's 4,700 dealers give it marketing reach rivaled only by Ford. And if vehicle sales continue to grow next year, as most analysts expect, Perkins' biggest problem may be building enough cars and trucks to meet demand—not the 500,000 extra needed to catch Ford. The comeback can't start too soon, says Alan Spitzer, who owns three Chevy dealerships in Ohio: "They've got a lot of recouping to do."

*By David Woodruff in Detroit*



## HOW A NEW BOSS GOT CONAGRA COOKING AGAIN

Philip Fletcher has costs down, while sales and earnings are up

**L**ess than a year after taking over as chief executive officer of ConAgra Inc., Philip B. Fletcher faced a critical dilemma. To soothe anxious shareholders, directors had asked Fletcher's revered predecessor, Charles M. Harper, to stay on as chairman. But while investors were happy, a survey of managers revealed that executives at the Omaha-based food giant weren't sure who

its Healthy Choice and Banquet brands. He's even talking of borrowing a page from Harper's expansionist strategy, using ConAgra's \$800 million in annual cash flow for new acquisitions.

Fletcher's approach is producing results. In an era of declining brand loyalty, with food companies battling for consumers, ConAgra announced on July 6 that its earnings rose 12% in the fiscal

year ended June 30, to \$437 million. Sales rose 9%, to \$23.5 billion. And since Jan. 1, ConAgra's share price has climbed 13%, to about 30, while the Standard & Poor's index of the top 14 food companies has dropped 4% (chart). Thanks to those returns, Fletcher is finally out of Harper's shadow. "He's been a stronger leader than I thought he would be," says former Agriculture Secretary Clayton K. Yeutter, a director since 1992.

A good thing, too. Fletcher reached the top just as ConAgra was sagging. Harper had spent his 18-year tenure as CEO transforming ConAgra from a sorry collection of flour mills into a consumer-goods powerhouse, using acquisitions such as the \$1.3 billion purchase of Bea-

trice Co. in 1990. But he insisted that each unit remain independent and nimble enough to respond to competitive and changing consumer tastes. That worked fine until high commodity prices stung ConAgra's meat-processing businesses, which account for almost a third of total sales. A vicious frozen-food price war added to the company's woes, squeezing margins. In fiscal 1993, ConAgra's operating profits were unchanged at \$979 million on a paltry 1% revenue gain, to \$22 billion.

After Harper's resignation in May 1993, Fletcher stepped up his campaign to wring efficiencies from ConAgra companies. A veteran of Heinz, Campbell Soup, and Heublein, Fletcher joined ConAgra as president of its Banquet Food unit in 1982. As a front-line manager, he reveled in the company's loose, entrepreneurial culture. But as CEO, Fletcher saw the downside of ConAgra's organizational chart: poor communication and high costs. For example, ConAgra's two popcorn makers, Golden Valley and Orville Redenbacher, were buying plastic packaging from the same vendor. But Golden Valley was paying 15% more while buying four times as much.

**NETWORKS.** Fletcher still wants ConAgra operating units to remain independent. But he has also created executive council where division heads meet periodically to discuss how they can pool their resources to reduce purchasing, warehousing, and transportation costs. He's also introducing a computerized network that shows how much suppliers charge each ConAgra unit. And to ensure that executives fully embrace ConAgra's new ethos of cooperation and efficiency, Fletcher has tied 25% of their bonuses directly to savings targets. He called the program "Get the Family Money" to encourage executives to act as a single family. Division heads saved \$100 million in the fiscal year just ended. Fletcher hopes to do even better this year. Thanks in part to the tighter rein on costs, NatWest Securities Corp. analyst David Nelson estimates that ConAgra's operating margin could widen to 4.7% this year, compared with 3.9% in 1990.

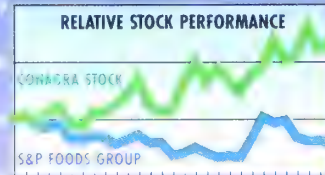


WITH DEBT LOWERED, FLETCHER IS LOOKING FOR A "SIZABLE" ACQUISITION

### AS CONAGRA'S PROFITS IMPROVE...



### ...ITS STOCK RISES



was in charge. Time for a showdown? Not exactly. Harper told his protégé that the question of command at ConAgra would soon be moot: "I'm going to be chairman and CEO of RJR Nabisco." Fletcher stared in disbelief. "I kept waiting for the punch line," he recalls.

Nowadays, there's little doubt about who's the boss at ConAgra. In the year since Harper left to run RJR, the 61-year-old Fletcher is applying a stricter regimen of top-down cost controls to ConAgra's 60-plus operating units, while forcing its independent fiefdoms to cooperate on everything from purchasing supplies to warehousing products. Fletcher is also reversing the slide in ConAgra's frozen-food unit with new recipes and stepped-up advertising for

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Along with improved efficiencies, Fletcher is also restoring ConAgra's competitiveness in the freezer case. As the price war subsided earlier this year, the company scrambled to broaden its share of the frozen-entrée market. Although it won't provide exact figures, ConAgra says it boosted frozen-food advertising by a third, including its first TV ads for Banquet in seven years. Competitors also came up with tastier recipes. The result: Healthy Choice, ConAgra's biggest brand, expanded its share of the frozen dinner market a full percentage point last year, to 12.5%, according to Information Resources Inc. Overall, NatWest's Nelson estimates that ConAgra's frozen-food sales rose 2% in fiscal 1994, to \$1.2 billion, after a 12% decline in 1993.

ConAgra also revamped the recipes for some of the dry and refrigerated foods that carry the Healthy Choice label. A year ago, analysts felt the mega-brand Harper launched five years ago had peaked. But last year, the combined supermarket sales for the 200-odd Healthy Choice products rose 16%, to \$89 million, estimates IRI.

**GLOBAL LIGHTWEIGHT.** Now that ConAgra is finally digested Beatrice, Fletcher is searching for new acquisitions. ConAgra's long-term debt is down to less than 30% of its capital, from more than 60% just after the huge Beatrice deal. Now, it's a matter of: Where is there a valuable piece that makes sense from an economic point of view?" Fletcher says. He may find the answer abroad. ConAgra remains a global lightweight. Just 1% of its sales come from overseas operations, vs. 63% for rival CPC International Inc. To build foreign sales, Fletcher has closed ConAgra International, the unit created by Harper to lead the company's push abroad through joint ventures. Instead, he's leaning on his individual companies, which best know their own businesses, to expand overseas.

To be sure, there's still work to be done at home. Hunt-Wesson sales will be just 2% to 3% this year—on target for a grocery unit with mature brands such as Peter Pan peanut butter, but hardly exciting. And competitors aren't standing still. Campbell Soup Co., for example, has slowed Healthy Choice's new product entries with its Healthy Request line.

Still, Fletcher hasn't given shareholders any reason to miss Harper. Even Harper acknowledges his successor's new stature. "He's making more money than I did with the company," says ConAgra's ex-chief. With all the problems he faces at RJR Nabisco these days, Harper may want to take a few pointers from his old protégé.

*By Greg Burns in Omaha*

## TRANSPORTATION

# THE SUITORS AT SABENA'S GATE

American would be a logical fit, but Swissair will probably prevail



THE SABENA-AIR FRANCE TEAMUP HAS HAD LITTLE SUCCESS

In late May, a grim man strode into the Brussels offices of Sabena, Belgium's national airline. He had come to talk with Pierre Godfroid, chairman of the money-losing carrier. It wasn't long before employees figured out that the mystery man was the industry's most ruthless cost-cutter, Robert L. Crandall, chairman of American Airlines Inc. parent AMR Corp.

For an airline struggling to transform itself from a once protected monopoly into a competitive enterprise, the barbarians were at the gate. Crandall said American wanted the kind of capacity-sharing deals Sabena has with Delta Air Lines Inc.—such as block purchases of seats—and a minority stake. And right behind Crandall came Swissair, which opened talks with Sabena amid reports that it wants a 49.5% stake. The bottom line: "Sabena's in play," says a top manager of one of the airlines in pursuit.

Such talks aren't new to Sabena. In 1991, the Belgian government offered a

37.5% stake to outsiders. American, British Airways, and KLM Royal Dutch Airlines all showed interest but were rejected. The Belgians feared they would demand big cuts in Sabena's staff, then loaded with patronage workers. The nod went to Air France, run by a sympathetic Socialist government. But since the

\$182 million deal was sealed in April, 1992, neither airline has benefited much. Sabena lost \$136 million in 1993. Air France spilled \$1.5 billion in red ink last year and has negative cash flow. "On paper," says Bertrand d'Yvoire, an airline consultant with Paris-based Consultair, "it's bankrupt."

Inevitably, politics will play a role in any sale. Air France is not rushing to unload its Sabena stake, because the proceeds from such a sale would hardly solve its financial problems, including \$6.8 billion in debt. Belgium, which favors a sale, hopes to push things along by tentatively backing a French plan before the European Union to give Air France \$3.5 billion in state aid. That's just one of many ways to grease a deal.

American is the most logical buyer. It's the only major U.S. carrier without a European partner. And Brussels' uncongested airport would make a good hub for the Fort Worth-based carrier.

A European buyer, such as Swissair, would be more palatable to France, however. Alarmed about Crandall's ambitions, Delta could live with a choice of Swissair, one of its European allies. The Atlanta-based airline is eager to avoid being drawn into a bidding war as it tries to cut \$2 billion in costs by 1997.

Swissair can't benefit from deregulation of the EU airline industry because Switzerland isn't an EU member. But a Sabena stake would give it a piece of national carriers' new freedom to fly around Europe. Bob Crandall made an impressive entrance, but Swissair could be the one to walk away with the prize.

*By Patrick Oster in Brussels*

## WHO'S EYEING SABENA

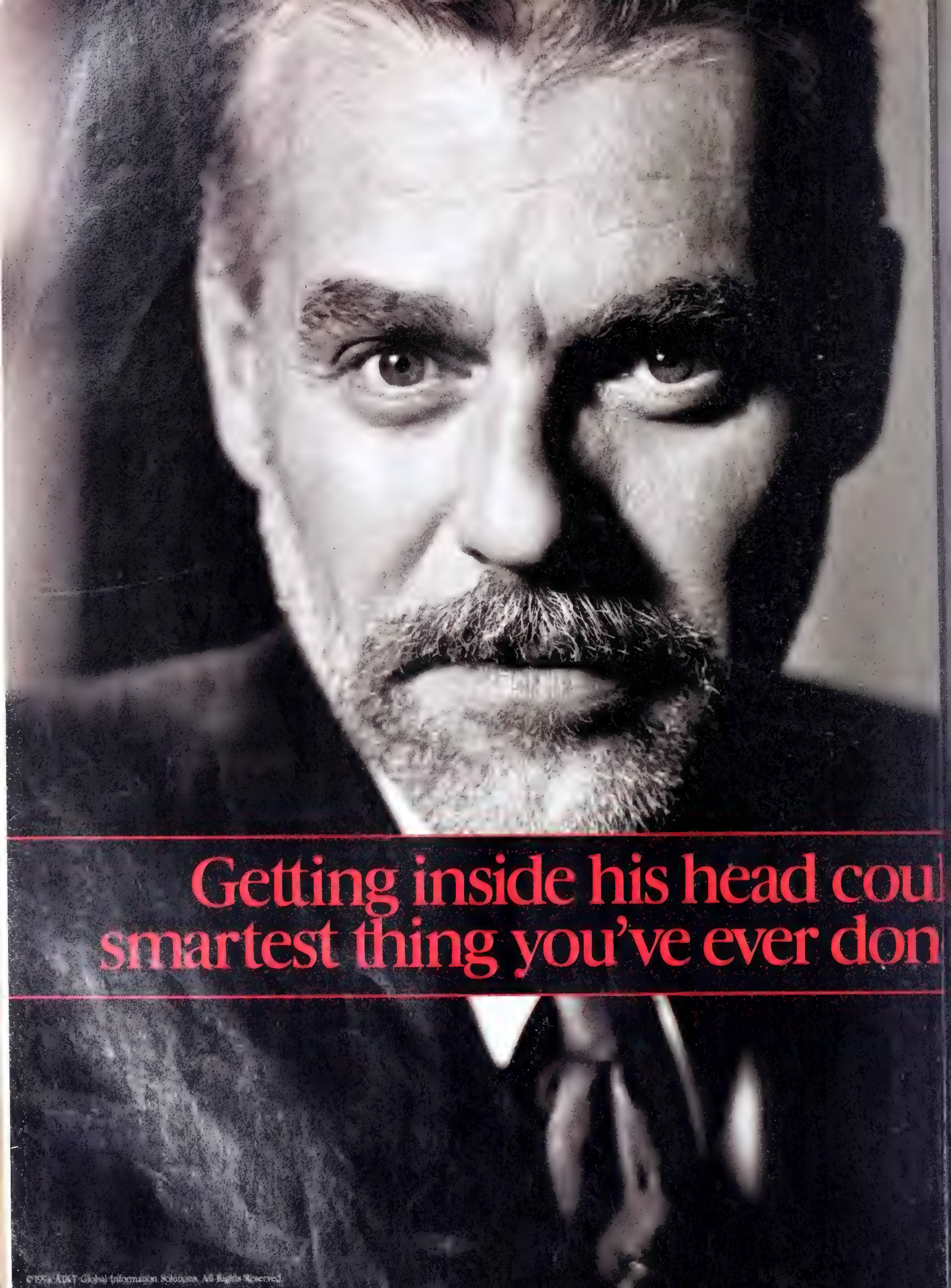
**AMERICAN** Wants Sabena as a partner to bolster its position in Europe

**DELTA** Wants to preserve its relationship with Sabena by blocking any deal with American

**SWISSAIR** Needs a link with a European Union carrier to take advantage of a deregulated airline market

DATA. BUSINESS WEEK





Getting inside his head could  
smarrest thing you've ever don



It seems you can't open a magazine today without reading about the importance of understanding your customers.

But 81% of CEO's still claim they don't know their customer base. And 55% say technology hasn't helped.

What good is information that's stovepiped, so the people who need it can't get their hands on it?

What good is information in ten different databases?

Our Get IT, Move IT, Use IT™ solutions recognize both the CEO's need for customer information and the CIO's need for integration and open architecture.

Because of all the information companies out there, we're the one that best unites the strengths of both computing and communications in our solutions.

So, for a major retailer, we helped them discover that 70% of their merchandise was not productive. And transformed each of their locations into a customer-driven neighborhood store. Where vendors knew what was moving, not in 75 days, but in less than a week.

For a European insurer with a nightmare claims process, where 20 pages per claim got filed and re-filed, and passed through a dozen hands, we now Get, Move, and Use information electronically. Productivity is up almost 30%. And the same staff that handled 4000 claims a month now handles 6000.

There's a Customer Focused Solution that can help you transform your company into a truly customer intimate organization. Call 1 800 579-5722. We'll tell you more.

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and communications have come together to help you  
get, move, and use information.*



**AT&T**

**Global Information  
Solutions**





# WHAT'S A SECURITY WORTH?

With today's exotic instruments, it can be anybody's guess

**O**n most any day, an individual investor—or a money manager, for that matter—can check the price of IBM, a futures contract on the Standard & Poor's 500, or a 30-year U.S. Treasury bond by calling a broker or punching a couple of keys on a PC.

But what about the price of an interest-only collateralized mortgage obligation (CMO)? Or a bond whose interest payments are tied to the price of copper? Or a municipal bond whose yield floats in the opposite direction of interest rates? That's not so simple. As the markets have become more inventive and have devised complex and often esoteric financial instruments, pricing those securities has become one of the toughest jobs on Wall Street.

But it's also one of the most critical, one that can make the difference be-

tween profit and loss for a securities firm such as Kidder, Peabody & Co., which has a \$10 billion inventory of mortgage securities, and even for nonfinancial companies such as Procter & Gamble Co., which invested in complex securities.

**COMPUTER ENHANCED.** How securities are priced is crucial for mutual fund investors, too, since funds must price their portfolio at the end of every business day. That's especially challenging for bond funds that invest in some of the unusual, less-liquid securities. Mutual fund maven A. Michael Lipper says when the auditors come in to review funds' semi-annual reports, they're on alert for how the funds are pricing their derivative instruments. "It's uncommon, but it isn't unheard-of for auditors to make funds write down securities," says Lipper.

What's a security really worth? When there are lots of buyers and sellers, the answer is simple. It's the price at which the security changes hands. But what about when markets are under stress and trading almost dries up? Under those conditions, is the market the best gauge of a security's value?

The Piper Jaffray Institutional Government Income Fund is a case in point. Its portfolio is chock-full of such exotic mortgage securities as interest-only and principal-only CMOs. Using the market as a pricer, the fund is down a numbing 26.4% so far this year. But have its long-term shareholders really taken that badly? No, says Edward J. Kohler, president of Piper Capital Management Inc. He contends that Piper's computer models—which use such variables as interest rates and prepayment schedules—value the fund's portfolio way above its current market price. If the fund were priced by its models, says Kohler, its losses would be only about half of what they are. If he's right, the fund should rack up some hefty gains when the market becomes more normal. In fact, the fund has closed its doors to new investors to preserve those expected profits for existing shareholders.

But in fact, like most mutual funds, the Piper fund prices its portfolio by what's going on in the market, not by



at its computers spew  
t. And now, says Koh-  
t, mortgage-backed se-  
curities are a "dysfunc-  
tional market." William  
Powers, a managing  
ector at Pacific Invest-  
ment Management Co.,  
rees. The difference in  
ces from dealer to  
aler, he says, "are as  
de as I've seen in my  
years in this market,"  
licating a highly illiq-  
situation.

Indeed, some investors  
nder if the third-party services that  
her market prices—such as Interactive  
ta Corp. or Kenny S&P Evaluation  
ervices, a unit of McGraw-Hill Inc., pub-  
ner of BUSINESS WEEK—are up to the  
o of valuing complex, illiquid secur-  
es. "The absolute truth is they can't  
ce these things," says George Hall,  
resident of Clinton Group Inc., who  
as a \$700 million mortgage hedge fund.  
know, because they've asked for our  
p." Hall prices his own portfolio.

Executives at the pricing services say  
y've got a good handle on the hard-  
price securities. They gather bid pri-  
from dealers and put that information  
o their own computer models to de-  
mine a fair price. "Our evaluators are  
pecialists. They come from trading  
ks, and they know how to make a  
ce judgment," says James Perry, a  
e-president at Interactive Data.

**ALMOST GENERIC.** The mortgage mar-  
t may be illiquid right now, but illi-  
dity in itself does not mean you can't  
t a reasonable value on a security.  
ke corporate and municipal bonds.  
ere's no "tape" or commonly shared  
ord of prices in either of those mar-  
ts, and only a tiny fraction of all  
nds trade on any day. But pricing ser-  
ves value them by comparing them  
h those that do trade. Muni bonds  
a certain credit quality, maturity, and  
upon tend to be priced similarly. "Mu-  
are almost generic," says Francis H.  
ainer Jr., director of fixed-income at  
nford C. Bernstein & Co. "All A-rated  
neral-obligation bonds of medium-size  
y and maturity will be priced pretty  
ch alike."

Corporate bonds, too, are segmented  
e munis and are usually priced at  
ne spread, or level, above the yield of  
reasury bond of the same maturity.  
at spread can vary depending on the  
te of the markets and the state of  
e economy. Even customized instru-  
nts, such as a bond whose interest  
yments are tied to the price of a  
mmodity, pose no great difficulty to  
e pricing services. The evaluators look  
the price of the underlying commod-

## HOW DIFFERENT SECURITIES ARE PRICED

**PUBLICLY TRADED STOCKS** Last sale  
in market where stock trades

**U.S. TREASURY BONDS** Last sale in  
the huge over-the-counter market

**CORPORATE BONDS** By comparison  
with similar bonds and with U.S.  
Treasuries

**MUNICIPAL BONDS** Matching up  
with similar bonds that have re-  
cently traded

### MORTGAGE-BACKED SECURITIES

By comparison with similar securi-  
ties, spreads over U.S. Treasuries,  
changes in prepayment rates,  
dealer quotes, and computer  
models

**PRIVATE EQUITY** At cost, adjusted  
up or down when investment man-  
ager can document the reason for  
making the change

DATA: BUSINESS WEEK

may report only monthly  
or quarterly to investors,  
can wait for the market  
or the services to catch  
up with a mispriced se-  
curity. Mutual funds, too,  
can change the price a  
service has set for a se-  
curity—if they can make  
a good case for it. And  
in fact, in cases where  
even a pricing service  
can't help, the funds do  
it themselves.

As the markets have  
created more innovative

ity and how the interest is calculated.

The pricing services don't have the  
last word, either. Money managers can  
challenge the pricing of a particular se-  
curity and often provide information that  
may prompt the pricing service to make  
a revision. Pension fund managers, who

and unique securities, they've given in-  
vestors a wide range of opportunities.  
But what has been sacrificed is the abil-  
ity to get a price that everyone will  
agree on. That indeed may be the price  
of financial innovation.

*By Jeffrey M. Laderman in New York*

### REAL ESTATE

## THE GERMAN TYCOON MAKING WAVES IN MIAMI BEACH

Thomas Kramer has money, property, big plans—and enemies

**V**isiting friends in Miami two  
years ago, German stock-and-  
commodities trader Thomas B.  
Kramer was astounded by what he saw.  
Just blocks south of Miami Beach's  
trendy Art Deco district was prime  
oceanfront property, on which sat most-  
ly boarded-up hotels and seedy apart-  
ments and houses. Earmarked by the  
City of Miami Beach for redevelopment,  
the blighted South Pointe section had  
been largely overlooked by builders ea-  
ger to capitalize on the cachet of the  
revitalized area to the north. And  
though his only foray into real estate—in  
Germany—ended disastrously, Kramer  
thought he knew a cheap commodity  
when he saw one.

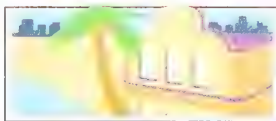
Within 48 hours of that visit, Kramer  
embarked on a \$100 million real estate  
buying spree. During the following year,

he bought 45 acres of land in South  
Pointe (undervalued, at least in his  
view), plus development rights for more.  
He also gobbled up other properties, in-  
cluding mansions in Indian Creek and  
nearby Star Island, where he is now  
building himself a palatial, 50,000-square-  
foot home.

**PILES OF CASH.** Almost overnight, the  
rich but neophyte developer has  
emerged as the key player in what is  
now one of the nation's hottest real es-  
tate markets. He could end up changing  
the face of Miami Beach. As the major  
landowner in South Pointe, Kramer, 37,  
is spending heavily—about \$20 million  
thus far—on architects and lawyers to  
help him realize his grand vision of a  
playground, à la St. Tropez, for the rich  
and ultrarich. His blueprint for South  
Pointe and other portions of Miami  
Beach includes luxury high-rise condo-  
miniums and shopping on the scale of  
Rodeo Drive in Beverly Hills. Betting  
that Florida voters will give the O.K. to  
casino gambling this fall, he's also team-  
ing up with Las Vegas casino king Ste-  
phen A. Wynn to build a megaresort-  
cum-gambling casino in South Pointe.

Along the way, however, the flam-  
boyant Kramer has stirred up a torrent  
of controversy, not just about his build-  
ing plans but about his personal behav-  
ior and his questionable reputation in

The neophyte developer has  
emerged as the premier  
player in one of the hottest  
U.S. real estate markets





Germany. He faces a buzz saw of opposition from vocal Miami Beach residents, who charge that his high-rise vision, especially a casino, will obliterate the area's low-rise, residential character—in part by driving hordes of bus-riding gamblers.

"He's not a beloved person in this city," explains Miami Beach Mayor Seymour Gelber. "It's difficult for a developer who wants to go to the height of the sky to be liked. I don't look on him as an evil person invading our city and trying to destroy it, but I don't agree with his concepts, and people in the area don't either."

Kramer-bashing, in fact, has become something of a sport. The local press details at length the battles over his plans, wonders at his seemingly inex-

he's willing to spend millions a year just on overhead. Even so, he says, "I'm still in very cheap."

But Kramer acknowledges that a series of early missteps cost him time and credibility. In October of 1992, for instance, he opened a nightclub called Hell, which generated a hailstorm of negative publicity. After the mobbed opening, according to allegations in local press reports, Kramer instructed doormen not to admit any more gays, and the club closed just months later. Kramer denies the charges.

Kramer says he now realizes that he is not a nightclub operator or even a developer. "I'm not a detail guy," he admits. He is teaming up with some experienced developers. "I think the only real value that I can bring to the table

now filtering down to South Pointe. I Voile Rouge, a jet-set resort, has already opened a site in South Pointe. The stage seems set for Kramer, but as real estate expert Martin W. Tapl puts it, "the devil is in the execution."

That's a devil Kramer has faced before. Son of a German stockbroker, Kramer vaulted into prominence among the Eurorich by correctly betting that the market would tank in October, 1987, and pocketed \$30 million, according to German press reports. In 1989, he started a fund to invest in real estate in what was then East Germany, before unification was assured. But negative articles about the riskiness of the deal scared away investors, and the company filed for bankruptcy in April 1992, owing creditors \$1.1 million. One of the articles was in the *Gerlach Report*, a respected German investment newsletter. Heir Gerlach says Kramer "lives his life at the costs of others" and will "never" be "a success in real estate."

**NO DEBT.** Kramer says he has repaid creditors every penny. He blames the failure of the venture on rumors spread by his father-in-law, Franz Burda, managing director of F&F Burda, an industrial holding company. Kramer says Burda had opposed him in marrying Burda's daughter, Catherine, and had threatened to destroy him. Burda won't comment.

With real estate financing hard to come by, Kramer has had to use mostly his own money, made largely from trading. Relatives and Catherine's stepfather-in-law, Siegfried Otto, majority shareholder of banknote printer Giesecke & Devrient, have also given him undisclosed sums. With no debt burden, he says, he can afford to spend a decade developing his investments.

It may take that long—or longer. Two proposed projects are under legal attack. One, a 25-story oceanfront condominium, is being challenged by owners of a nearby hotel that has sued the city and Kramer's company over the way the project was approved.

"Kramer may be in the right spot at the right time now, but by the time his projects are completed, things could change," says Michael Cannon, an appraisal expert. Indeed, Florida history is replete with stories of developers whose visions fell victim to hurricanes or poor planning. Whether Kramer avoids that fate will depend, among other things, on whether his sense of timing remains true.

By Gail DeGeorge in Miami, with Peggy Salz-Trautman in Bonn



haustible supply of cash, and chronicles his brushes with the local police. Recent incidents include a fistfight in a local nightclub and a driving-while-intoxicated arrest, which will be challenged, a Kramer spokesman says. More substantively, detractors say he is too new to the real estate game to realize his plans.

Brushing off the criticism as mere jealousy over his wealth, Kramer appears undaunted by the huge legal, financial, and public-relations obstacles he now faces. "Educated developers were afraid of the risks," says Kramer. "I'm a double Taurus." That's why, he says,

is a very good sense of timing," he says.

And while real estate experts regard Kramer as everything from naive to visionary, they agree that his timing appears impeccable. After decades of stagnation, condo and hotel construction is booming. The city commission is considering proposals for an 800-room convention hotel, the first major hotel to be built there in 20 years. Property values are rising, with the South Pointe section up nearly 37%.

The cachet of the Art Deco district is

## OTHER HOLDINGS UNDER CONSTRUCTION

- ▶ 8-story office/retail/restaurant complex
- ▶ Portofino Tower, 45-story condo



# SECURITIES FIRMS FIND A NEW HAVEN—IN CONNECTICUT

Just up the Infobahn from Wall Street, with all the amenities

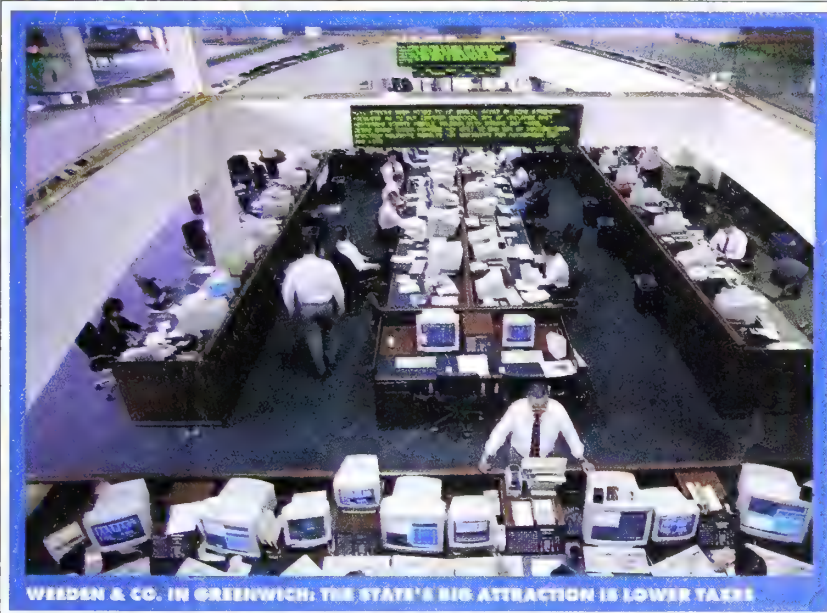
Donald E. Weeden has always been something of a maverick. In the 1970s, he led the crusade against fixed brokerage commissions and advocated more automation on Wall Street. Today, Weeden remains ahead of the pack. He moved his institutional brokerage firm, Weeden & Co., out of the city of high taxes and high stress last month set up a state-of-the-art trading floor in Greenwich, Conn. Says Weeden: "The sense of feel of the market is as good here as it is in our office on Maiden Lane."

Weeden's recent move to the Nutmeg state is being duplicated by many firms and individuals who feel that modern technology can replicate the complex trading and research operations they once thought could exist only in Manhattan. The exodus is making the Greenwich-Westport rail corridor the largest cluster of finance firms outside a

major city in America—dozens of companies located in quaint, restored houses and shiny, low-slung office buildings. It may help explain why there's been a glut of office space in Manhattan's financial district.

**AN AMAZING PLUS.** The list of recent arrivals includes some heavyweights: \$1 billion hedge fund Ardsley Partners; Mutual Life of Canada's TMG Financial Products, a derivatives shop; former Kidder Peabody investment banking and Scott C. Newquist, whose Advisory Capital Partners is a venture-capital and buyout firm; and former Federal Reserve Board Vice-Chairman David W. Mullins Jr., who joined Long-Term Capital Management, a bond-trading firm. Today's communications systems are so reliable you don't have to be in Manhattan," says former Citicorp Chief Economist Leif H. Olsen, who manages about a million from an office five minutes from his New Canaan home.

The newcomers join a plethora of traditional corporate-finance outfits long established in the area. In Stamford, GE Capital Services Inc., with \$211 billion in assets, is one of the country's largest financial-services companies, while General Re Corp., with \$14 billion in assets, is the leader among several Stamford-based reinsurance firms. All told, employment in the finance sector has risen



steadily in the region, from 9,040 in 1982 to 19,700 last year. Moving to Connecticut, says Roger Prichard, chief financial officer of TMG Financial Products, has been "an amazing plus" in luring talented professionals.

A big reason for Connecticut's growth is simply financial. The combined federal and state income tax rates for top-bracket taxpayers is 38.9% in Connecticut, vs. 43.9% in New York City. By moving out, partnerships can also avoid New York City's tax on unincorporated businesses. Wages for support staff are also lower, as are most operating expenses.

**Downside: Suburbia lacks the vast nexus of pros who swap the latest market intelligence**

But for many financial types fleeing the city, the lures are less tangible. Alan H. Dorsey, research director for Value Investing Partners, an institutional brokerage that moved to Westport in 1992, says he can think more clearly outside of the hubbub of Manhattan. "Analytically, it's night and day," says Dorsey. Others report that with less time commuting, there's more time for reading financial statements, poring over research reports, and just pondering the markets. "I think I am more efficient and focused than I've ever been in a 12-year Wall Street career," says C. Michael Vaughn, a principal in Credit, Research & Trading Corp., which specializes in junk bonds.

**GOLF SHIRTS.** And the lifestyle is more leisurely. Mike P. Goodbody, executive vice-president at Greenwich Partners

Inc., which trades lesser-rated muni bonds, says that on a recent afternoon, one-third of his staff was out playing golf. "Believe me, that would never have happened at Morgan Stanley," he says. Office attire tends to be comfortably casual: Traders buy and sell millions of dollars in securities while clad in shorts and golf shirts.

Some expats, however, miss Wall Street's vast, tight-knit nexus of financial professionals, which provides quick, easy access to prospective customers and the latest market intelligence. In Connecticut, everyone generally heads home after work instead of to a watering hole. But a closer sense of community is developing. Charles L. Glazer, whose institutional brokerage was an early pioneer when it set up shop in Greenwich in 1981, organizes occasional group lunches. "You kind of have a quorum now, if you will," he says.

So far, there's been no move to Connecticut by a big Wall Street firm, and the exodus of the boutiques has not caused major damage to Manhattan real estate. Two years ago, Morgan Stanley & Co. considered moving to Stamford but decided to stay put when the Big Apple came up with an incentive package to match Connecticut's. But even if the major firms stay in Manhattan, the steady stream of Wall Street refugees is expected to continue—and help secure a place for southwestern Connecticut on the map of the world's financial centers.

By Tim Smart in Greenwich, Conn.



BY GENE G. MARCIAL

## SLOT MACHINES THAT TAKE BILLS: IGT'S JACKPOT?

**G**ambling has been a giant loser this year, and the mother of all gaming stocks—International Game Technology, the world's largest maker of slot machines and video card games—is down a staggering 40%, to 19 a share. So what has management done about the first major decline in years? Buy back stock. So far, IGT has repurchased 3 million shares, worth \$65 million.

"It's the smartest thing to do, because the stock has been so unjustifiably mauled," says a money manager at a major New York hedge fund, who has been accumulating IGT. "Management knows that demand for slot machines, particularly its newest ones that feature 'embedded bill acceptors,' is on the rise and that earnings will continue to grow at impressive rates." These bill acceptors take in dollar denominations up to \$100.

Analyst Steve Eisenberg of Oppenheimer has been telling clients that IGT is the "most attractive stock in our gaming universe—a pure-play proxy for the worldwide demand for gaming devices." Eisenberg figures IGT will hit 50 in a year or two, based on several upbeat factors the Street hasn't yet taken into account.

One is the rush of orders for the machines from casinos in Nevada and Atlantic City. The paper-money feature lets machines work a lot faster and cuts overhead, since operators need to hire fewer money changers.

**BRISK TRADE.** IGT Chairman Charles Mathewson figures casinos can increase their volume by 10% to 15% with the new slots. Even though operators normally replace machines only after seven years, they are now buying new ones as fast as possible, he notes. So far, bill-acceptor machines make up only about 3% of casinos' total. Mathewson says the new machines cost \$900 more than the old models. Thus, both the casinos and IGT benefit from the new devices.

Mathewson believes IGT will surprise analysts, many of whom think gambling's growth will slow. "The prospects in the U.S. remain great, as we expect new jurisdictions to allow legalized gambling fairly soon," he says.



In addition to the lucrative replacement market for slot machines, even more alluring new products are being tested in Canada, he says.

Eisenberg thinks at least four more states may legalize gambling in the next nine months: Alabama, Massachusetts, Pennsylvania, and Texas. He believes IGT's earnings per share will continue to grow at a 30% clip—hitting at least \$1.10 this year and \$1.45 in 1995, up from 84¢ in 1993.

## KNOGO SETS OFF A BUZZ

**T**here's nothing like a good merger story to pull a stock up in a hurry. That's what happened to Knogo after it announced in late June that it had hired Smith Barney to seek a buyer or a strategic partner with deep pockets. Shares of the maker of antishopping surveillance systems galloped from 10 in early June to 15. Is the party over then for Knogo's stock?

"Far from it," says Adam Hutt, head of research at I. A. Rabinowitz, a New York securities firm. He thinks Knogo has just started to roll. He puts its buyout value at \$25. "The stock would be an attractive buy at 12 times its cash flow of \$2 a share," says Hutt. Trading at 11 times estimated 1995 net of \$1.35, Knogo has a book value of \$12 a share. On sales of \$94 million, it made 55¢ per share in 1993. He sees a net of 90¢ this year.

Rumors are that Sensormatic Electronics, a big manufacturer of electronic and video surveillance equipment, heads the list of companies looking to

buy Knogo. Analysts say Sensormatic wants to dominate "source-tagging"—attaching anti-theft labels at the factory rather than the stores. Knogo owns patented "universal source imbedding" technology that uses its minuscule Super Strip inserted in products such as shoes, clothes, and compact disks. Sensormatic Chairman Ronald Assaf says: "we are always looking for companies with niche technology or products." But he declined comment on Knogo. Other companies rumored to be interested in Knogo: Checkpoint Systems, also a maker of electronic surveillance systems; 3M; and a European electronics company. Checkpoint wouldn't comment, and 3M didn't return calls.

## USA WASTE MAY BE ON TOP OF THE HEAP

**T**he trash business is, well, in the dumps. Environmental stocks, very much the in-group of the 1980s, have fallen into disfavor, mainly because they failed to measure up to expectations. But not all of them. One that has been growing fast—with high margins—is USA Waste Services.

Its stock, though, has not escaped the downdraft, having fallen from 15 a share in January to 11 recently. But it is one of the few antipollution stocks that is gaining fresh support from some savvy pros.

"This could be a Browning-Ferris in the making," says analyst Ken Leung of Smith Barney, referring to the \$3.5 billion waste-management company whose stock is near its high of 32. He notes that John Drury, for 10 years the president and chief operating officer of Browning-Ferris, has lately joined USA Waste as CEO.

In a year, Leung expects the stock to hit 20. One factor: USA Waste's recent merger with Envirofil, another solid-waste-products company. The combination has doubled USA Waste's \$78 million revenues, to a projected \$175 million this year. By yearend, says Leung, the company should be able to grow at 20% or better. So for 1995, earnings are expected to hit \$1.05, up from 85¢ this year, he figures. Last year, USA Waste made 36¢.

Another bull on the stock is Andrew Barish of Robertson Stephens, a San Francisco investment bank. With its "strengthened management team," USA Waste could be "one of the most exciting stocks" in the tarnished industry over the next year, he says.

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Mark Tushman

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# Developments to Watch

EDITED BY OTIS PORT

## PITY NOT THESE INK-STAINED WRETCHES



less dye. It's harmless, except that it won't wash off soon.

Developed by Detective Philip Cleary and his brother Michael, a chemist, the dye serves as a brand. If it shows up under an ultraviolet light, it proves the wearer was at one specific place, because the FSS provides a unique chemical formulation for each store or home. Although the new Securicor alarms, which rent for about \$16 a week, have been available only for a few weeks in Bristol, burglars seem to be heading for safer pickings. Local break-ins are down 75%, according to the government's Crime Prevention Center.

## SO MUCH FOR DECLINING U.S. COMPETITIVENESS

Remember all the hand-wringing about how the faltering competitiveness of U.S. industry would create a nation of burger-flippers? Well, the skeptics may have to eat crow. The latest report of the industry-backed Council on Competitiveness "shows a number of areas where we've had real improvement," says Paul A. Allaire, CEO of Xerox Corp. and chairman of the council. In 1993, for instance, the bottom-line index for competitiveness—a country's standard of living—rose 1.9% in the U.S., compared with only 0.2% in Japan. Overall productivity climbed 1.5%, while Japan's dropped 0.1%. And investment in plants and equipment jumped 11.8%, compared with a plunge of 8.5% in Japan.

Not all the gloom has been swept away, though. An accompanying survey showed that CEOs, university presidents, and labor leaders believe—by a margin of 2 to 1—that America's most difficult competitiveness challenges are still ahead. Explains Allaire: "If we don't address longer-term issues like education and the low savings rate, we will not be able to sustain the improvement."

## A KILLER PROTEIN STARTS LEAVING SOME CLUES

A protein dubbed p53 is among the body's most intriguing substances. It normally helps repair DNA and prevents the unchecked growth of cells. But mutated versions—scientists have found more than 1,000—have been implicated in dozens of cancers. And now, a report in the July 15 *Science* shows that p53's normal action can even be blocked by viruses.

The development of therapies for diseases caused when

the protein goes awry has been hampered by lack of knowledge about how the molecule works. Part of the puzzle has been solved by researchers at New York's Memorial-Sloan-Kettering Cancer Center. By shining X-rays onto crystallized p53 proteins, they determined the three-dimensional structure of a key region of the molecule. The results, reported in the same issue of *Science*, show that p53 binds to DNA's contours. This explains why mutations that change p53's shape prevent correct binding and thus block its normal action. Now the bad news: The molecule is so complex that many of the drugs being tested have no chance of working. This discovery, says Harvard University oncologist Stephen Friend, an accompanying commentary, "has set a higher hurdle."

## THE PENTAGON PONIES UP FOR FLAT PANELS

The Pentagon took a big step in early July to nurture a domestic flat-panel-display industry. The brass-hat gang will pick up half the cost of a \$100 million factory to make so-called active-matrix liquid-crystal displays (LCDs)—the most common type of flat screen. At typical prices of \$1,000 or so, they are the most expensive component in laptop computers. The \$50 million will go into a plant to be built by AT&T, Xerox, and Standish Industries, a Lake Mills (Wis.) manufacturer of LCDs.

Because Japanese suppliers control 95% of the fast-growing flat-panel business—now about \$5 billion worldwide and heading for \$40 billion by 2000—the Pentagon in April announced plans to seed a U.S. industry with \$580 million over the next five years. Industrial-policy critics jumped on the scheme, but market researcher O'Mara & Associates in Palo Alto, Calif., says that U.S. companies are outspending the government 3 to 1, after belatedly recognizing the market potential of flat screens. Eight startups have raised more than \$200 million since 1990, O'Mara says, while established companies have invested nearly \$500 million.

## LITTLE FRIDGES FOR THOSE HOT PCs

As microprocessors rev up to ever-faster speeds, they generate more heat—making it hard for personal computers to stay cool. So Digital Equipment Corp. dreamed up a little pipe organ that sits on a chip and sucks up heat. Its tiny pipes contain alcohol. At the bottom, heat causes the liquid to boil. The vapors rise to the top where, cooled by the PC's fan, the alcohol reverts to a liquid and flows back down.



Could such an intricate device be produced economically? DEC put it to Randall M. German, a professor of materials science at Pennsylvania State University. He succeeded in molding prototypes from tungsten-copper alloy. That got the attention of Aavid Engineering Inc. The Laconia (N.H.) company is making its own little fridge for computers and concedes that DEC's design is clever, but pricier than the plastic-and-copper system Aavid introduced last fall. "It's a validation of our approach," says Ralph Larson, head of Aavid's research lab.

## GREEN INDUSTRIAL POLICY TAKES ROOT

The Clintonites are pushing a new enviro-tech strategy

**W**hen a nearby hospital spilled several gallons of hazardous formaldehyde four years ago, Andy M. Skalla smelled opportunity. Skalla, vice-president of S&S Co. of Georgia, an Albany (Ga.) maker of specialty chemicals, realized that hospitals were spending plenty to haul away formaldehyde. So S&S developed a way of chemically transforming the pre-polymer to render it harmless enough to pour down the drain. The method cuts disposal costs in half, but selling it in skeptical towns, water districts, and cities has been a Herculean task. "The biggest block has been federal, state, and local government," Skalla says.

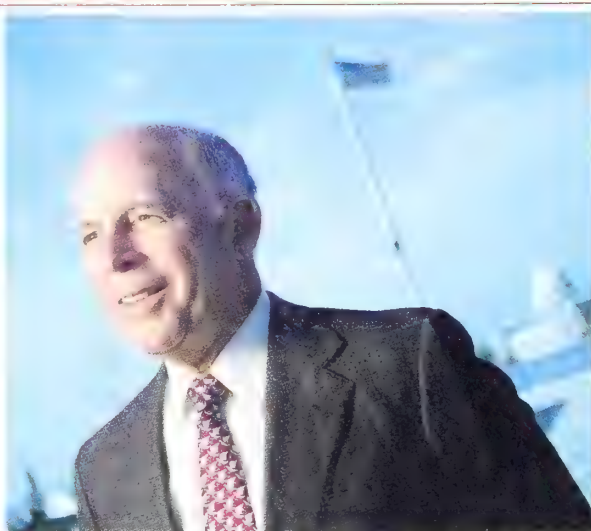
As President Clinton might say: Andy, the White House feels your pain. From the moment they took office, Vice President Al Gore and Presidential science adviser John H. Gibbons promised a "green" industrial policy to promote development and adoption of innovative environmental technologies. Now, the Administration is beginning to deliver. On July 15, Gore was scheduled to unveil the first stage of the long-awaited initiative. The preliminary plan proposes to sweep away rules that discourage innovative technologies, to boost export-promotion efforts, and to have Washington certify new methods that work, such as water-friendly solvents, bacteria that eat pollution, and faster ways of identifying contaminants (table). The Administration will also spend more than \$100 million over the next 10 years to help environmentally sound businesses bring new technologies to market.

The White House hopes the program will jump-start the U.S. environmental-technology industry, increase employment. The government could also be a direct beneficiary, gaining the means to clean up its own befouled bomb lab-

oratories and military installations. "Our vision is of long-term economic growth that creates jobs while improving and sustaining the environment," says Gibbons.

Uncle Sam's helping hand couldn't come at a better time. The \$140 billion environmental business was created largely by government laws and regulations. But after double-digit annual growth in the 1980s, companies were hit by a double whammy: the recession and a slowdown in federally mandated cleanup programs such as the Superfund. In 1993, industry revenues rose only 2.7%. "Green" mutual funds ranked dead last among the 28 categories tracked by Lipper Analytical Services Inc. Also to blame are varying requirements among states—which administer environmental laws—for technology standards and permits. The patchwork system makes it expensive and hard to market enviro-gear—especially innovative technologies.

**WEAPONS MESS.** The Administration's initiative won't bring an immediate turnaround. The surest way to assist environmental companies would be to force every industry—and government, too—to spend more on pollution control. But that would be both a drag on the econo-



SCIENCE ADVISER GIBBONS: UNTANGLING THE RULES

my and political folly, White House officials say. Beyond that, the Administration's more modest proposals won't aid all 45,000 U.S. enviro-corporations equally. The traditional part of the business is devoted to disposing of waste or cleaning up contaminated sites or pollution-laden factory effluent. But more companies are developing processes that produce little or no pollution in the first place. The Administration's focus on fostering such prevention could undermine the traditional cleanup artists. And Energy Dept. officials worry that the new initiative won't sufficiently encourage the development of the cleanup technologies needed to tackle the mess at the nation's weapons labs.

White House officials counter that such methods won't be neglected. Besides, Administration officials promise that, long before the U.S. is pristine enough to put cleanup companies out of business, export-promotion efforts will have helped open up new markets for them overseas. In fact, the most difficult task facing the Clintonites is to transform the White House's lofty pronouncements into action at the regulatory agencies. "It takes extraordinary effort to get the message down to the staff level—where the chemicals meet the environment," says Washington environmental lawyer William J. Walsh of Pepper, Hamilton & Scheetz.

Witness California's battle with the Envi-

### CARROTS TO BOOST INNOVATION

*By encouraging the development and adoption of innovative environmental technologies, the Clinton Administration hopes to spur the economy, foster pollution prevention, and help tackle the government's own cleanup problems. Here's how:*

- ▶ Coordinate green-technology programs in various agencies
- ▶ Test and verify technologies, offering a government stamp of approval for those that work
- ▶ Harmonize conflicting state and local regulations, so that green-tech companies won't have to get individual permits for thousands of locales
- ▶ Make regulation more flexible, so that industry can buy riskier but potentially more effective technologies
- ▶ Spend \$100 million over two years helping companies commercialize new technologies
- ▶ Step up efforts to sell U.S. green-tech companies' products overseas



ronmental Protection Agency over car-emission inspections. California wants to try a new approach that has been successfully tested—supplementing traditional smog-check inspections with curbside remote-sensing devices to detect the worst polluting vehicles. But the EPA insists that the traditional approach of using central facilities to do biennial checks on cars is the best solution. "The White House says: 'We need innovative technologies,' but their own bureaucrats are doing everything they can to block those," charges Donald H. Stedman, the University of Denver chemist who developed the remote-sensing device.

**OVER THERE.** Despite such obstacles, industry executives see the Clinton initiative as a positive. "We're hopeful," says Brian A. Runkel, executive director of the California Environmental Business Council. Since foreign markets are predicted to grow faster than those at home, "we especially like the focus on environmental-technology export promotion," he says. What's more, industry executives have proof that some of Gore's and Gibbons' suggested strategies—notably, the idea of a governmental seal of approval for technologies and products—can give the industry a boost.

Earlier this year, California started a test and certification program that's a model for what the Clintonites propose nationwide. And the first five technologies to win a state seal of approval are already reaping benefits. On Apr. 20, the day the state declared its intent to certify the s&s formaldehyde-disposal system, Kaiser Permanente, a giant health-maintenance organization, announced it would use the product in all of its Northern California facilities. The California certification "gives us a shot in the arm," says Skalla. "It will open doors as far away as Australia." Similarly, Dwight Denham, Southwest regional manager for EnSys Inc., based in Research Triangle Park, N.C., predicts that state approval for its technology—a test that spots polychlorinated biphenyls in contaminated soil—will help the company double its sales over the next year.

The White House plan probably will not create such striking results so quickly. The new strategy won't be complete before yearend, after consultation with industry. After that, it may take months, even years, to set up federal certification programs or make the morass of state and local rules consistent. What's more, say congressional staffers, some of the changes will require legislation or may wither for lack of funding. But even skeptics are giving Clinton credit for trying. And eventually, the plan just might lead to a cleaner and more prosperous America.

*By John Carey in Washington*

# Sports Business

GOLF

## LIFTING THE GOLF BAG BURDEN

How T. J. Izzo's little idea is lightening loads on the links

**S**cratch golfer T. J. Izzo nearly gave up the game when a bad back left him writhing in pain after lugging his clubs for 18 holes. Real golfers don't ride in carts, he says. Then, one night in 1988, Izzo awoke from a dream about a harness-like golf-bag strap. He jumped out of bed and made a mock-up from duct tape and towels.

Izzo's brainstorm was, he says, "a better mousetrap"—although the world didn't exactly beat a path to his door. The Izzo Dual Strap success story proceeds step by plodding step.

First, Izzo, a suburban Denver home-builder, persuaded a friend to put up \$15,000 to patent the strap in exchange for 10% of any future royalties. The patent was issued in 1991, and Izzo negotiated a licensing agreement with Wilson Sporting Goods Co., letting it manufacture the strap under its name in return for help in defending the patent against knockoffs.

Meanwhile, Izzo had produced 1,500 straps on his own with another \$15,000 put up by a golfing buddy, a surgeon who "loved the idea, because he tells women not to carry purses on one shoulder," Izzo says.

Samples were sent to golf publications, which endorsed the \$29.95 strap. Doctors recommended it, too. "It has real orthopedic benefits. It's a simple concept to distribute forces evenly across the shoulders and spine," says David A. Haaland, an orthopedic surgeon in La Mesa, Calif.

**GALLERY SHOW.** Still, sales languished. Izzo feels that's because golfers likened his strap to a backpack's, which can be awkward to put on and take off. The Izzo is different. One strap is lined with velour to grip the shoulder; the other

has a nylon lining to slip off with ease.

To show professionals the strap in action, Izzo attended tournaments, starting in the gallery with his bag strapped on. Among the first to notice: J. Michael Carrick, Tom Kite's caddie and director of the Professional Tour Caddies Assn. Carrick wears the strap to ease sore back and muscle spasms. But it takes some ribbing. "Tom calls it the 'geek strap,'" says Carrick. The strap got a big boost when well-known caddie

Fanny Sunesson told the *London Daily Express* she almost gave up caddying for Nick Faldo because of back pain. The strap saved her career, she told the newspaper. Izzo then signed her to promote his baby to the Professional Golfers Assn. European Tour.

In April, 1992, Izzo formed Izzo Systems Inc. He's president and chief executive. He raised \$380,000 for operations by selling 10% of the company to a group of Wyoming investors. In addition, Izzo brought in Joseph Louis Barrow Jr., son

of late heavyweight champ Joe Louis, as senior vice-president for marketing. Barrow signed up 24 independent retailers in the U.S. and 8 foreign distributors. Barrow has also targeted college teams and top junior players because "they're trend-setters," he says.

Izzo predicts revenues of \$1.7 million this year on the sale of 92,000 straps. Last year, he made his first profit: a net of \$12,000 on revenues of \$1 million from 75,000 straps. He's trying to raise \$500,000 for an assembly plant in Wheat Ridge, Colo. There's just one dividend in this venture so far: Now that Izzo is spending all his time on the strap, his golf handicap has gone from 0 to 7.

*By Sandra D. Atchison in Wheat Ridge*



**CADDIE SUNESSION: ONE LOOP GRIPS AS THE OTHER SLIPS OFF**



## A MESSAGE ON THE RISK OF MOVING TO CLIENT/SERVER WITHOUT A COMPLETE SET OF TOOLS. BROUGHT TO YOU BY THE ONLY COMPANY TO OFFER ONE.

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## SEATTLE, A MULTIMEDIA KIND OF TOWN

Microsoft's backyard is home to a host of CD-ROM upstarts

**T**he names are tongue-in-cheek—Mammoth, Humongous, and Hyperbole—but their outsized ambitions are for real. These startups and at least a dozen others clustered in and around Seattle are determined to strike it big in multimedia, a new category of software combining video, sound, and graphics. In the process, they're putting Seattle on the map, right next to creative centers such as Hollywood and San Francisco's so-called Multimedia Gulch.

Why Seattle? First and foremost, there's Microsoft Corp. The \$4.5 billion software giant, located on a 265-acre campus in Redmond, across Lake Washington from Seattle, has brought an abundance of programming whiz kids to the area, along with scores of software startups. But these young companies also draw on Seattle's right-brain side: its renowned music scene, acclaimed theater, and a surprising array of creative talent including filmmakers, animators, writers, producers, and artists. The result is a thriving new media community—call it Multimedia Grove.

All told, the 500 or so employees of Seattle's 16 most promising multimedia outfits could fit into one wing of Building 25, the latest addition to Microsoft's sprawling campus. But because the latest startups are focusing on what market researchers say will be close to a \$1 billion market in 1995, they're attracting the attention, and dollars, of venture capitalists and industry watchers from all over. "Seattle is really coming into its own. Only recently have there been really interesting, backable companies outside Microsoft and [desktop-publishing software maker] Aldus," says Douglas J. Mackenzie of Kleiner Perkins Caufield & Byers, a top Silicon Valley venture capital firm.

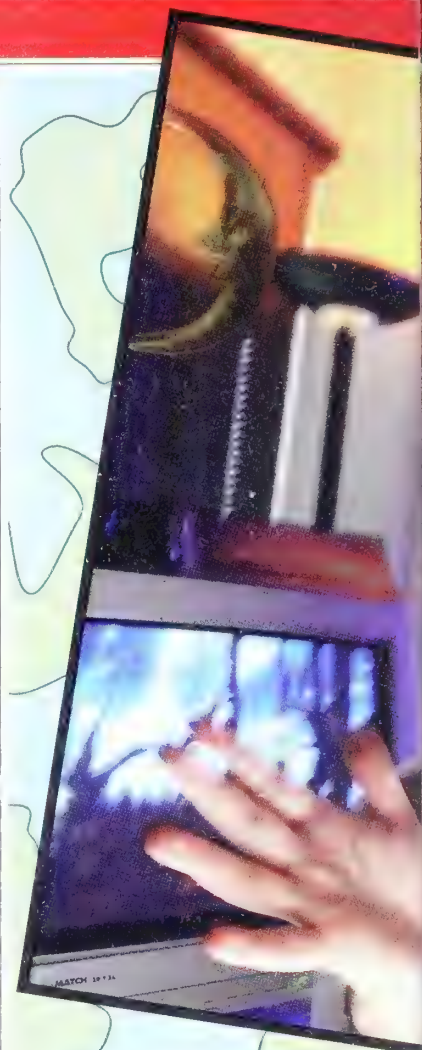
The money is rolling north. In January, Redmond-based Edmark Corp., a maker of educational software for kids, raised \$5.5 million from Kleiner Perkins and two other venture funds. Brisk sales of "edutainment" titles such as a series featuring Putt Putt, an animated car, drew an unsolicited investment offer for Humongous Entertainment from Palo

Alto-based Hummer Winblad Venture Partners. The Woodinville (Wash.) startup was founded in 1992 by Shelley Day and Ron Gilbert, former game producers at LucasArts. They met with more than 10 investor groups before accepting \$1.2 million from Hummer Winblad in April. Says Ann Winblad: "We pursued them to convince them that venture capital might help them."

Seattle's upstarts are also drawing the interest of newspaper and magazine publishers rushing to grab a piece of the multimedia pie. In May, *The Washington Post* bought 80% of CD-ROM producer Mammoth Micro Productions, which operates out of Seattle. And on June 8, Meredith Corp., publisher of *Better Homes & Gardens*, bought a minority stake in Seattle's Multicom Publishing, a three-year-old maker of home-oriented CD-ROM programs.

**"CHOMPING AT THE BIT."** Microsoft money also plays a big role. Microsoft co-founders Paul G. Allen and William H. Gates III are dipping into their respective personal fortunes to finance multimedia projects at companies such as Starwave Corp. and Continuum Productions Corp. And Microsoft employees regularly turn entrepreneur overnight by cashing in stock options. Patrick Ford, for example, resigned from Microsoft's Multimedia Systems group where he was a manager for interactive TV tools in February, one week after he became fully vested, to start Splash Studios Inc. "I was just chomping at the bit to start my own company," he says. With his \$1 million nest egg, Ford, 35, plans to produce four multimedia CD-ROM titles for kids this year, hopes to move into interactive TV. He dreams of \$100 million in sales in 10 years.

Steve Podradchik, 27, couldn't wait for his options. He quit his job as a product manager at Microsoft last August, four months short of vesting, to start Medio Multimedia Inc. By November, Me-



Some Seattle-area multimedia hopefuls, their projected 1995 revenues, key products, and year founded

### LONE WOLF

**\$6 MILLION** Networking method to improve audio systems. Partly owned by Microsoft co-founder Paul Allen. (1988)

### HYPERBOLE

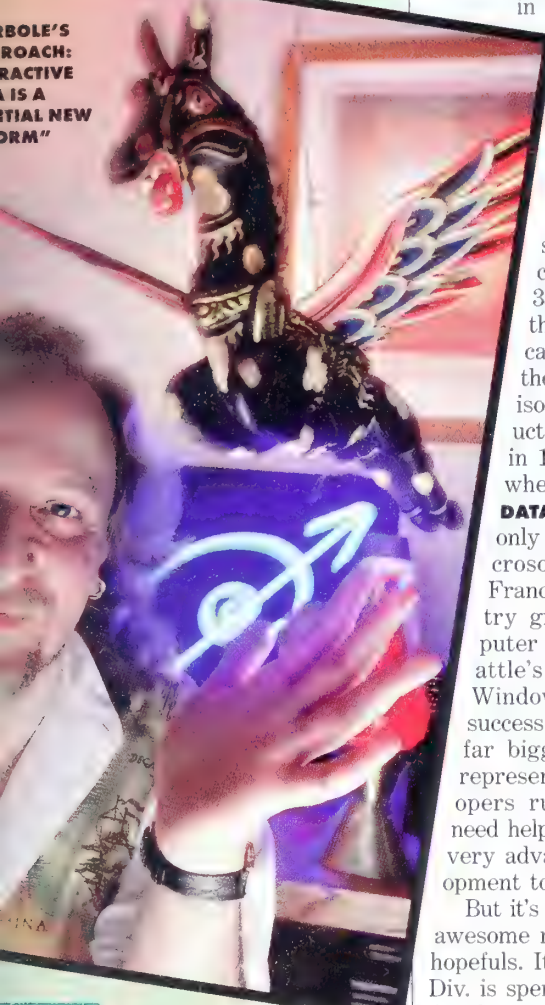
**\$2.5\* MILLION** Interactive novels and films on CD-ROM, such as *Madness of Roland*, *Quantum Gate*. (1990)

### STARWAVE

**NO SALES YET** Paul Allen startup developing sports and outdoor on-line services, and music and entertainment CD-ROMs. Also exploring broadband technology. (1993)



BOLE'S  
ROACH:  
RACTIVE  
A IS A  
TIAL NEW  
FORM"



dio had published three CD-ROM titles, including an attention-grabbing disk on the JFK assassination that uses video clips, animation, and book excerpts. Its 22 employees, crammed into three rooms in Redmond, have produced six titles and generated more than \$1 million in sales.

Other Microsoft alums haven't had such overnight success. Raymond Bily left Microsoft in 1986, the year it went public, and cashed in his shares to found Midisoft, whose software lets you create electronic music. Bily, 33, struggled until 1992, when the market for computer sound cards exploded and makers of the cards began "bundling" Midisoft software with their products. Sales jumped to \$1 million in 1992 and \$2.5 million in 1993, when the company went public.

**DATA GLOVES.** Money's not the only advantage proximity to Microsoft brings. While the San Francisco area's multimedia industry grew up around Apple Computer Inc. and its Macintosh, Seattle's developers are attuned to Windows and are now riding the success of that software, which is a far bigger market than Macintosh represents. And Seattle-area developers run to Redmond when they need help. Says Humongous' Day: "It's very advantageous in Windows development to have Microsoft here."

But it's also clear Microsoft will be an awesome rival for Seattle's multimedia hopefuls. Its rapidly growing Consumer Div. is spending hundreds of millions to develop multimedia programs, including edutainment disks. Says Ford of Splash

Studios: "You can't be in the software business and not compete directly with Microsoft."

Whether Microsoft is friend or foe, Seattle is likely to continue to draw multimedia talent. It offers a reasonable cost of living—including no state income tax—plus an outdoorsy lifestyle and a thriving arts community.

It was Seattle's lively music scene, for example, that attracted Mark Lacas, co-founder of Lone Wolf, a maker of software for professional audio equipment. Lacas moved Lone Wolf in

February from Redondo Beach, Calif., to a new office next door to The Vogue, the nightclub where the rock band Nirvana got its start.

But it was more than grunge that at-

tracted Lacas. He was also taken by Seattle's innovative arts scene. One example he cites: a little known club called the Northwest CyberArtists, where members combine experimental music, art, dance, and technology in such avant garde shows as a water fountain controlled by music, or data gloves that can point to a spot and make sound come from it. "These things wouldn't happen in L.A. or the Bay Area because there's no economic incentive to them," says Lacas. "The Northwest has a better ethic for the creation of new media." In addition to artistic fervor, Lacas enjoys the funding he received from billionaire Paul Allen.

For Greg Roach, Seattle's strong acting community was a major draw. He moved his company, Hyperbole Studios, from Houston to Bellevue last year. An actor himself, he used 30 live actors for his interactive CD-ROM adventure movie, *Quantum Gate*. "Interactive media is a potential new art form," says Roach, 32. He prefers the counterculture image but is learning to live in the world of business. Because of financial difficulties at his distributor, Media Vision, Roach is in search of a new partner, preferably one with \$10 million to invest.

Meanwhile, Seattle is becoming a destination for Hollywood entertainment professionals. Paul Allen's Starwave is producing CD-ROMs in collaboration with big names such as British rock star Peter Gabriel and actor-director Clint Eastwood. Even Allen's Asymetrix, which started out by making software-development tools, has gotten into the act. The company's new entertainment division has worked with MCA Inc. and Steven Spielberg's Amblin Entertainment to produce a *Jurassic Park* screen saver. Next for Asymetrix: software featuring cartoon favorites Rocky and Bullwinkle and the Pink Panther.

Other Hollywood transplants include producer Scott Rosenfelt (*Home Alone*) and actor Tom Skerritt (*Picket Fences*). Their new company, Seattle-based ShadowCatcher Entertainment, has plans to develop projects to meld film and TV with computing. "Seattle is becoming a hotbed of people who came from film, TV, games, computers, and music," says Lucie Fjeldstad, ShadowCatcher's new chairman, at one time IBM's multimedia chief.

Even if today's startups don't turn into humongous or mammoth successes, Seattle could still become the multimedia mecca of the '90s. Why? "It has a very interesting approach to blending culture and technology, and that's what multimedia is all about," points out Mammoth co-founder Tom Lopez. Hollywood, look out.

*By Dori Jones Yang in Seattle*

### HUMONGOUS

**\$6** MILLION Interactive entertainment software for kids, featuring the characters Putt-Putt, Fatty Bear, Freddi Fish. (1992)

### MIDISOFT

**\$5** MILLION Interactive software for creating music. (1986)

### EDMARK

**\$12** MILLION Educational software for kids. Titles include *Bailey's Book House*, *Millie's Math House*, *KidDesk*, *Sammy's Science House*. (1970)

### MEDIO MULTIMEDIA

Interactive CD-ROM publisher of informational titles exploring JFK assassination, architecture, world music. (1993)





EDITED BY AMY DUNKIN

## HEALTH COSTS: WEAVING YOUR OWN SAFETY NET

**L**ulled into a false sense of security by years of automatic employer-sponsored health insurance, many people don't give enough thought to how they're going to pay medical bills after they retire. They don't realize that the good old days of lifetime health-care benefits are gone and that many companies are either asking retirees to pick up the premiums or axing the coverage altogether.

"People have to wake up and realize Corporate America isn't going to take care of them," says Allen Steinberg, a benefits consultant at Hewitt Associates in Lincolnshire, Ill. According to a poll by Foster Higgins, a New York benefits consulting firm, 35% of 1,787 large employers provided

health-care benefits to retirees last year, down from 57% in 1987. Among smaller companies, only 9% offered continuing coverage.

People can't necessarily depend on Uncle Sam either, despite talk of national health reform. Many of the Clinton proposals favoring retired workers are expensive and may not pass. "You've got to plan for retirement health care as if the Clinton plan didn't exist," cautions Joan Gruber, a Dallas financial planner.

Yet when a retiree has to pay full price, the cost of health care can be staggering. Until 65—when government-run Medicare benefits

begin—an early retiree can expect to spend \$2,500 to \$5,000 a year for a traditional indemnity insurance policy, and maybe half of that for a health-maintenance organization. (An early-retirement couple will pay \$5,000 to \$12,000 for indemnity insurance.) At 65, insurance to supplement Medicare coverage is likely to cost \$600 to \$2,500 annually. And a 65-year-old who worries about being wiped out by a nursing-home stay will pay about \$1,800 a year for lifetime long-term-care insurance.

If you're already retired, there may be little you can do beyond reaching deeper into your wallet. But if you're

still some years away, you have options. First, as if you needed another reason to stash away the maximum in your 401(k) plan, keep in mind that some of the savings you probably have to fund medical expenses as well as day-to-day living expenses and travel. The sum you'll need could buy a vacation condo. Assuming costs rise 10% in the first few years and then decline 5% as reforms kick in, a married 45-year-old would need \$275,000 for individual medical and dental insurance premiums from retirement at age 80, according to Actuarial Sciences Associates, a benefits consultants subsidiary of AT&T.

Some companies are experimenting with VEBAs, a sa-

*Life*  
**after**  
**WORK**



vehicle designed to pass funds for medical expenses. Short for voluntary employee-benefits association, it allows you to invest after-tax dollars in an account that is tax-free. The best part is you don't owe any taxes when you take out money, as long as you use it to pay medical bills. You can make withdrawals at any age. However, if you leave the company, you can no longer contribute to the account.

**10% PROMISE.** Many companies offer generous benefits packages to coax graying workers to depart. Before accepting a buyout, get in writing that any health benefits promised can't be changed or terminated, advises Laurie Mann, an attorney with the American Association of Retired Persons.

If you want to retire early and don't qualify for continuing health coverage, you can buy company insurance for at least 18 months. Under the Consolidated Omnibus Budget Reconciliation Act of 1986, or COBRA, companies must offer 20 employees or more the option to continue their health insurance.

On your own, buying insurance at a group rate through a trade or professional association is usually cheaper than an individual policy. You can tolerate limits on your choice of doctors, and it may be the cheapest alternative. Douglas Hyer, a Manhattan insurance consultant, says one of his clients, a 65-year-old retired executive with two dependent children, pays \$11,900 a year for a traditional indemnity policy that covers 80% of expenses after a \$500 family deductible. If the family opted for Group Health Inc.'s HMO coverage, it would pay a flat \$6,996, plus \$5 per office visit.

For retirees 65 or older, Medicare supplies very basic coverage. Prescription drugs aren't covered, and health providers are often reimbursed below prevailing rates. Medicare Part A, which pays for hospitalization, is free to most everyone, while Medi-

care Part B, covering doctors' visits, is \$41.10 monthly. Many benefits consultants believe affluent retirees will eventually be charged more for Medicare, just as higher-income seniors are now taxed for Social Security benefits.

Without company benefits to supplement Medicare, many retirees must turn to Medigap coverage. There are 10 plans that differ by whether they cover such extras as prescription drugs and skilled nurses. For more details, you can obtain a free booklet, *Consumer's Guide to Medicare Supplement Insurance*, from the Health Insurance Association of America (800 942-4242).

A small but growing number of HMOs cater to Medicare patients. By paying an annual flat fee of about \$120 plus \$5 per office visit, patients receive broader benefits than under traditional Medicare. (In some competitive areas, the annual fee is waived.) These benefits are usually capped and include eye exams and preventive-care programs. Call the HMOs near you to see if they accept Medicare patients.

Retirees fear that a serious illness will wipe out their savings. Given that the average cost of a year's stay in a nursing home is \$40,000, well-off retirees should consider a long-term-care policy that protects assets. Some 135 insurers sell individual policies, but a less expensive option—if available—is to buy long-term-

## RETIREE, INSURE THYSELF

Last year, only 35% of 1,787 large companies provided health-care benefits to retirees, down from 57% as recently as 1987

care coverage through your employer at a group rate. Only a fraction of employers now offer such insurance to employees, retirees, and sometimes their parents, but more are expected to do so.

### HEALTH-COST FINANCING OPTIONS FOR RETIREMENT

#### WHILE YOU'RE STILL WORKING

**401(k) plan** This general tax-deferred account can help pay for medical costs and everyday living expenses.

**VEBA** Lets you accumulate after-tax dollars in a tax-free account to pay for medical bills and insurance premiums. But many companies still don't offer it.

#### IF YOU TAKE EARLY RETIREMENT

**Extended company medical benefits** Many employers are either asking retirees to pick up a bigger portion of the premium or eliminating the coverage entirely. If your company now offers health benefits to retirees, check whether it can alter them later.

**COBRA benefits** If your company health insurance doesn't continue, you can purchase the coverage for at least 18 months after you leave.

**Private insurance** Explore buying group insurance from an HMO or professional association. These options are less expensive than individual major medical plans.

#### ONCE YOU'VE TURNED 65

**Medicare** Government program covers only the most basic doctor and hospital bills.

**Medigap insurance** Choose one of 10 standard plans to supplement Medicare reimbursements, varying by whether they cover such extras as prescriptions and preventive care. Premiums range from \$600 to \$2,500 a year at 65.

**Long-term-care insurance** Costing about \$1,800 a year for lifetime care if you sign up at age 65, it pays for extended nursing-home stays or at-home care.

**Medicaid** If nursing home costs shrink savings to \$2,000, the federal health-care program will pay for your stay.

DATA: BUSINESS WEEK

When shopping for long-term care insurance, look for financially sound insurers that offer policies with broad coverage, including adult day care. Experts advise covering

clause that protects against inflation.

New York, Connecticut, and Indiana encourage elderly residents to buy long-term-care insurance by promising that when coverage is exhausted, they will qualify for Medicaid without having to deplete their assets. Typically, when savings shrink to \$2,000, people become eligible for Medicaid—which, unlike Medicare, pays for extended nursing-home stays. Other states are expected to adopt such programs.

Nobody wants to believe that a serious illness will destroy a much-anticipated retirement. But if that happens, knowing that you weighed your health-care options in advance should give you some comfort. *Susan Scherreik*



## NEST EGGS FOR LATE STARTERS

**R**etirement-funding shortfalls lurk everywhere. Sure, the magic of tax-free compounding is great if you begin building your 401(k) plan at age 25, but what if you don't start until 40 or 50? What if you switch jobs so many times you never get fully vested in any pension program? What if you take off for seven years to raise your kids? No longer can you count on a cushy pension or Social Security. Still, you can find options that help you catch up.

The first step, of course, is fully funding company 401(k)s and any of your individual retirement accounts, even if you can't defer taxes on the entire contribution. If you work for a nonprofit group or a government agency, says Houston financial planner Lorraine Decker, you may be surprised to learn that you can make up for a lack of past contributions with a 403(b) plan—the public sector's version of a 401(k). If you're a school teacher, for example, you can shelter huge amounts of pretax salary according to an Internal Revenue Service formula, if your school district has a 403(b) or will set one up.

**YOUR OWN BOSS.** If you are self-employed in any manner, even as a silent partner in a small business, if you give lectures, or sell batik scarves on weekends, you have some options that may be even better than a 401(k). You can contribute up to 25%, to a maximum of \$30,000 a year, of your self-employment earnings to a Keogh plan, and it's all tax-deferred. There are two types of Keoghs: profit sharing and money purchase.

With a profit-sharing Keogh, you can vary the

amount you contribute each year. But you pay for it with a lower cap on contributions: 15% of your income. With a money-purchase Keogh, you can put away up to 25% of your earnings. But you must contribute a fixed amount each year. You can have both plans as long as your combined contributions don't exceed 20% of your net income. Use a money-purchase Keogh to contribute a fixed amount you can handle each year, say 6%, and a profit-sharing plan so you can add up to 14% more if you have a good year.

**FEE TRAP.** A similar kind of savings plan available to the self-employed is a simplified employee pension (SEP). Since there is less paperwork in-

involved, a SEP is even easier to set up and administer than a Keogh. A SEP lets you defer 15% of earnings up to \$30,000 each year, and there are no restrictions on how much you have to put in the plan during a given year.

Even if you have maxed out your 401(k), IRAs, and a SEP or Keogh, you can buy an annuity to help fund your retirement. Avoid fixed annuities "because they don't keep up with inflation," says financial planner Ron Rogé. If you're playing catch-up, you'll do better with a variable annuity that can be invested in a variety of equity funds for higher returns that will compound tax-free. But beware of steep fees. Shop for annuities with low expense ratios, such as American Skandia Life's Life-Vest Personal Security Annuity or Equitable's Equi-Vest. Annuities sold by mutual

funds such as Vanguard Scudder, Stevens & Co. and Fidelity Investments are to be cheaper also. Or call independent Advantage Financial Services (800 829-2877) for an annuity shopping service. **MORTGAGE ATTACK.** There's no place like home for a source of retirement savings. Prepaying your mortgage every tiny increments each month

## Life after WORK

can translate a huge savings interest payment over the life of a loan. If a couple in their 40s who bought a house with a 30-year, \$100,000 mortgage at 10% interest started paying \$31 extra monthly immediately, they would cut back their interest payments by \$43,300, according to *Kiplinger's 12 Steps to a Worry-free Retirement* (\$14.95, Kiplinger Books). The money that would have gone for interest is then freed up and the couple will be building more equity in the house. *The Banker's Secret* book and software (800 308-9999) can help you customize a prepayment plan to your budget.

Later on, if you need retirement funds, you can sell your house and move to a smaller, less expensive residence. Keep in mind that if you wait until age 55, up to \$125,000 of profit is free of capital gains tax.

A much more drastic way to catch up at the last minute would be to pack up and move to a cheap country. If you work abroad, you can exempt up to \$70,000 annually of earned income from U.S. taxes, even though you still have to file returns. And you're forced into early retirement, you can live more comfortably on less. Guadalajara, Mexico, has a popular U.S. retirement colony, for example. But, of course, that's an extreme solution: You can find most of the answers to retirement savings much closer to home.

Pam Blum







## ENDING SENIORS TO CYBERSPACE

a the personal-computer lab at Manhattan's Hudson Guild-Fulton Senior Center, children's author Eva Tsch-Costabel—who says she's "deep into middle age"—at the keyboard pecking away on her latest story. A couple of chairs away, community activist Katharine Herts, one of the youngest members, at 68, is writing a position paper on health care. Nearby another retiree is playing PC solitaire.

These relative neophytes to computers are all members of SeniorNet, a nonprofit organization whose main mission is to teach computer skills to older people. Says Oscar Bonilla, a septuagenarian who teaches SeniorNet classes: "It's the opportunity to learn computers improves their emotional and mental health." SeniorNet is helping dispel the stereotype that the world of bytes and electronic-mail messages is beyond the reach of technophobic elders. While older adults do enter computerdom with trepidation,

growing numbers of seniors are embracing the machines with the passion exhibited by geeks a third their age. Some use software to keep tabs on their finances or trace their family roots. Others have turned to PCs so they can relate better to their computer-generation grandchildren. "I decided I was becoming a couch potato, watching TV all day," says George Woolfson, 70, of Lowell, Mich., who retired more than 20 years ago from his advertising job. Now, he says, "I just about spend my day playing around with the computer."

**REMOTE SCRABBLE.** Woolfson's favorite program is Print Artist from Maxis, which lets him create greeting cards, banners, and menus, some of which he sells to local restaurants for a modest profit. James Barrow, 85, of Clayton, Mo., took up the computer to play Scrabble over a modem.

Hudson Guild is typical of SeniorNet's 59 learning centers across the country. The lab contains five PS/1 PCs

running 386 microprocessors donated by IBM, plus a pair of Tandy 286s. Members (all 55 or older) pay a \$25 annual fee; those enrolled in the American Express Senior Membership program (800 282-1700) get a 50% discount. SeniorNet claims 13,300 members, with nearly 60% stating that they joined to keep their minds active. A six-week introductory course costs \$15, as do other classes—in data-

base design, spreadsheet usage, and word processing.

Computer classes are also offered at many colleges, but seniors often feel intimidated sitting with 18-year-olds. Silver Fox Computer Club (800 456-3574) in Louisville, Ky., and cities in three other states specializes in classes for adults over 50. The \$200 fee covers a dozen four-hour classes, including separate E-mail and Internet courses.

Many retirees are already hanging around the virtual corridors of cyberspace. Seniors who have been widowed

or become less mobile are bonding with on-line friends all over the world. In the Retirement Living Forum on CompuServe, members can exchange messages in "The Town Square." Some recent subject headings: Where were you on Nov. 22, 1963?; World War II memoirs; and grumpy old men and ladies. They can also download files from the Social Security Administration, including a factsheet on how benefits are figured.

**COCKTAIL CHATTER.** SeniorNet Online, available through America Online (\$9.95 per month), contains a variety of discussion groups, from gardening and genealogy to health and retirement. The Internet is the topic of choice in the Getting Into Computers section, where some 450 messages on the subject were recently posted. Every Wednesday evening, SeniorNet regulars can take part in an on-line "cocktail party," chatting live about current events. A weekly on-line diet group gathers Saturday mornings.

SeniorNet President Mary Furlong envisions older people serving as guides to the Information Superhighway, teaching people in schools and libraries. "Seniors have the time, talent, patience, and interest," she says. SeniorNet members near Puget Sound in Washington are becoming Internet pen pals for kids at a local elementary school. As pupils learn about World War II, for example, their older on-line buddies regale them with firsthand experiences about D-Day and rationing.

People who think they're too old to learn computers may reconsider after reading a message posted by one SeniorNet member. The writer pointed out that Grandma Moses began to paint at 78, Winston Churchill took on the Nazis in his mid-60s, and Benjamin Franklin served as mediator at the U.S. constitutional convention in his early 80s. With that perspective, those collecting Social Security checks might not see the computer as much of a challenge after all. *Edward Baig*

## NOT TOO OLD TO LEARN

**SENIORNET (415 750-5030)**  
Offers computer classes and SeniorNet Online, separately through the America Online network (800 827-6364).

**COMPUSERVE (800 848-8199)**  
Its Retirement Living Forum includes on-line discussions about Social Security and health.

**PRODIGY (800 776-3449)**  
Its Seniors Bulletin Board lists topics on coping, retirement, and travel.

DATA: BUSINESS WEEK

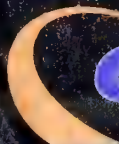




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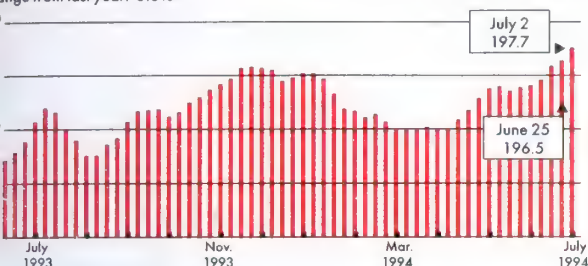


# Business Week Index

## PRODUCTION

Change from last week: 0.6%  
Change from last year: 3.6%

1967=100 (four-week moving average)

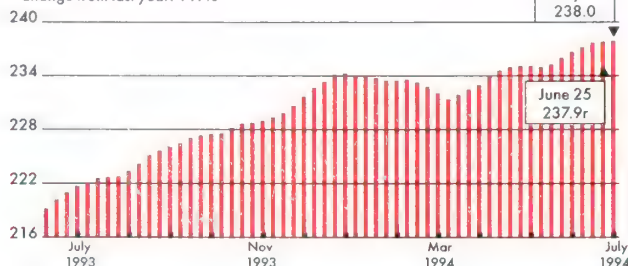


The production index increased during the week ended July 2. Seasonally adjusted output of autos, trucks, coal, steel, and lumber, as well as rail-freight traffic, rose. Crude-oil refining and paper production levels were unchanged from the previous week, while paperboard and electric power output fell. Before calculation of the four-week moving average, the index increased to 199.1, from 197.6. The index rose to 197 in June, from May's reading of 194.

BW production index copyright 1994 by McGraw-Hill Inc.

## LEADING

Change from last week: 0%  
Change from last year: 7.1%



The leading index was unchanged during the week ended July 2. Sharply faster growth in real estate loans offset lower stock prices, higher bond yields, and slower growth in materials prices. The M2 growth rate was unchanged, while data for large-business failures were unavailable. Before calculation of the four-week moving average, the index rose to 238.3, from 237. For the month of June, the index increased to 237.9, from 236.3 in May.

Leading index copyright 1994 by Center for International Business Cycle Research

## PRODUCTION INDICATORS

|                                                 | Latest week | Week ago  | % Change year ago |
|-------------------------------------------------|-------------|-----------|-------------------|
| IRON & STEEL (7/9) thous. of net tons           | 1,892       | 1,914#    | 1.9               |
| AUTOS (7/9) units                               | 17,986      | 127,030r# | -71.3             |
| TRUCKS (7/9) units                              | 26,169      | 112,501r# | -40.5             |
| ELECTRIC POWER (7/9) millions of kilowatt-hours | 68,544      | 67,781#   | -0.6              |
| CRUDE-OIL REFINING (7/9) thous. of bbl./day     | 14,200      | 14,478#   | -1.1              |
| COAL (7/2) thous. of net tons                   | 18,630#     | 19,520    | 6.6               |
| PAPER (7/2) thous. of tons                      | 871.9#      | 882.8r    | 2.5               |
| CEMENT (7/2) thous. of tons                     | 788.0#      | 784.0r    | -3.0              |
| BITUMEN (7/2) millions of ft.                   | 461.8#      | 483.8     | 8.3               |
| RAIL FREIGHT (7/2) billions of ton-miles        | 22.3#       | 22.2      | 8.3               |

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPAA, SPPA, Association of American Railroads

## FOREIGN EXCHANGE

|                          | Latest week | Week ago | Year ago |
|--------------------------|-------------|----------|----------|
| YEN (7/13)               | 98          | 98       | 108      |
| MARK (7/13)              | 1.53        | 1.57     | 1.73     |
| POUND (7/13)             | 1.57        | 1.55     | 1.48     |
| FRANC (7/13)             | 5.25        | 5.39     | 5.90     |
| DOLLAR (7/13)            | 1.38        | 1.38     | 1.28     |
| FRANC (7/13)             | 1.29        | 1.32     | 1.52     |
| PESO (7/13) <sup>2</sup> | 3.400       | 3.397    | 3.123    |

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

## PRICES

|                                                  | Latest week | Week ago | % Change year ago |
|--------------------------------------------------|-------------|----------|-------------------|
| WHEAT (7/13) \$/bushel                           | 384.650     | 385.500  | -2.5              |
| SCRAP (7/12) #1 heavy, \$/ton                    | 116.50      | 111.50   | -1.7              |
| WOODSTUFFS (7/12) index, 1967=100                | 211.2       | 207.1    | 2.6               |
| COPPER (7/9) ¢/lb                                | 114.3       | 116.0    | 24.2              |
| MINUM (7/9) ¢/lb.                                | 72.5        | 70.0     | 26.6              |
| EAT (7/9) #2 hard, \$/bu.                        | 3.38        | 3.42     | 7.6               |
| IRON (7/9) strict low middling 1-1/16 in., ¢/lb. | 71.47       | 72.72    | 29.9              |

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Market, Kansas City market, Memphis market

Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

## LEADING INDICATORS

|                                            | Latest week | Week ago   | % Change year ago |
|--------------------------------------------|-------------|------------|-------------------|
| STOCK PRICES (7/8) S&P 500                 | 447.61      | 446.30     | 0.5               |
| CORPORATE BOND YIELD, Aaa (7/8)            | 8.18%       | 8.11%      | 13.3              |
| INDUSTRIAL MATERIALS PRICES (7/8)          | 102.6       | 102.2      | 7.5               |
| BUSINESS FAILURES (7/1)                    | NA          | NA         | NA                |
| REAL ESTATE LOANS (6/29) billions          | \$429.0     | \$426.0r   | 3.9               |
| MONEY SUPPLY, M2 (6/27) billions           | \$3,547.3   | \$3,545.6r | 2.1               |
| INITIAL CLAIMS, UNEMPLOYMENT (6/25) thous. | 353         | 352r       | 4.1               |

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

## MONTHLY ECONOMIC INDICATORS

|                                       | Latest month | Month ago | % Change year ago |
|---------------------------------------|--------------|-----------|-------------------|
| BUSINESS WEEK PRODUCTION INDEX (June) | 197.0        | 194.0r    | 3.7               |
| BUSINESS WEEK LEADING INDEX (June)    | 237.9        | 236.3r    | 7.5               |
| EMPLOYMENT, CIVILIAN (June) millions  | 122.4        | 122.9     | 1.9               |
| UNEMPLOYMENT RATE, CIVILIAN (June)    | 6.0%         | 6.0%      | -21.1             |

Sources: BW, CIBCR, BLS

## MONETARY INDICATORS

|                                      | Latest week | Week ago   | % Change year ago |
|--------------------------------------|-------------|------------|-------------------|
| MONEY SUPPLY, M1 (6/27)              | \$1,149.0   | \$1,150.0r | 6.8               |
| BANKS' BUSINESS LOANS (6/29)         | 294.1       | 295.2      | 5.2               |
| FREE RESERVES (7/6)                  | 960         | 635r       | -2.8              |
| NONFINANCIAL COMMERCIAL PAPER (6/29) | 154.2       | 156.5      | 0.7               |

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

## MONEY MARKET RATES

|                                        | Latest week | Week ago | Year ago |
|----------------------------------------|-------------|----------|----------|
| FEDERAL FUNDS (7/12)                   | 4.23%       | 4.37%    | 3.01%    |
| PRIME (7/13)                           | 7.25        | 7.25     | 6.00     |
| COMMERCIAL PAPER 3-MONTH (7/13)        | 4.82        | 4.80     | 3.18     |
| CERTIFICATES OF DEPOSIT 3-MONTH (7/13) | 4.81        | 4.80     | 3.14     |
| EURODOLLAR 3-MONTH (7/8)               | 4.76        | 4.71     | 3.14     |

Sources: Federal Reserve, First Boston



**YOU'VE JUST MISSED THE FIRST SIGN OF BREAST CANCER IF YOU DIDN'T SEE THAT SMALL DOT IN THE UPPER LEFT HAND CORNER.** Because it can start that small inside your breast. That's why a yearly mammogram is a must, especially if you're over 50. Doctors agree that as you get older, the risk of breast cancer is higher. But with early detection, you increase your chance of successful treatment. Even though you may have missed the first sign of breast cancer, a mammogram won't. For information, please call the American Cancer Society at 1-800-ACS-2345.

**A MAMMOGRAM.  
EARLY DETECTION IS THE  
BEST PROTECTION.**

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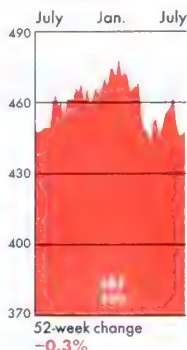
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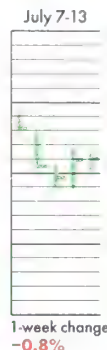
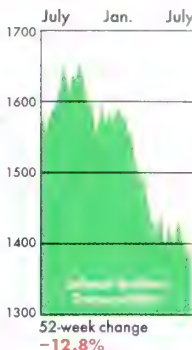
## CURRENCY

and bond markets suffered a base of interest-rate jitters for of the week. Stocks perked midweek as anti-inflationary cs piled up on investors' NASDAQ issues soared, fu y the 16.7% rally in QVC which had its merger talks BS Inc. interrupted by an un ed bid. A rally in the dollar y 13 also helped calm fears e Federal Reserve would ates. The long bond reacted good news with a rally that yield down to 7.67% from e earlier in the week.

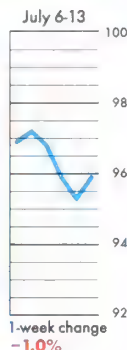
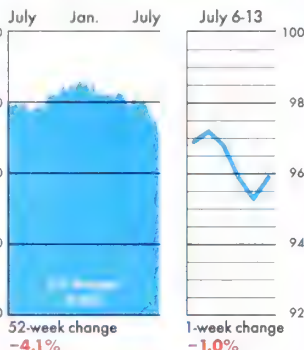
## STOCKS



## BONDS



## THE DOLLAR



## MARKET ANALYSIS

### STOCKS

|                                 | Latest | Week | % change<br>52-week |
|---------------------------------|--------|------|---------------------|
| IONS INDUSTRIALS                | 3704.3 | 0.8  | 4.6                 |
| ZE COMPANIES (S&P MidCap Index) | 168.7  | 2.1  | 0.6                 |
| COMPANIES (Russell 2000)        | 243.6  | 1.2  | 2.4                 |
| COMPANIES (Russell 3000)        | 258.2  | 0.8  | -0.6                |

### IGN STOCKS

|                          | Latest   | Week | % change (local currency)<br>52-week |
|--------------------------|----------|------|--------------------------------------|
| ON (FINANCIAL TIMES 100) | 3005.3   | 2.0  | 6.1                                  |
| (NIKKEI INDEX)           | 20,540.4 | -0.4 | 2.0                                  |
| TO (TSE COMPOSITE)       | 4140.6   | 2.4  | 5.0                                  |

## INDUSTRY GROUPS

### MONTH LEADERS

|                             | 1-month | % change<br>12-month |
|-----------------------------|---------|----------------------|
| WELL EQUIPMENT AND SERVICES | 6.9     | -5.9                 |
| LINES                       | 6.4     | -2.5                 |
| AND GAS DRILLING            | 5.9     | -18.5                |
| MINIMUM                     | 5.1     | 14.6                 |
| OMOBILES                    | 4.6     | 13.9                 |

### MONTH LAGGARDS

|                    | 1-month | % change<br>12-month |
|--------------------|---------|----------------------|
| CHINE TOOLS        | -18.1   | -20.1                |
| CKING              | -9.0    | 12.1                 |
| LDING MATERIALS    | -8.0    | -7.0                 |
| ALTH-CARE SERVICES | -8.0    | 0.4                  |
| UG CHAINS          | -8.0    | -5.9                 |

### FUNDAMENTALS

|                              | Latest | Week ago | Year ago |
|------------------------------|--------|----------|----------|
| 90-DAY TREASURY BILL YIELD   | 4.50%  | 4.34%    | 3.06%    |
| 30-YEAR TREASURY BOND YIELD  | 7.67%  | 7.59%    | 6.56%    |
| S&P 500 DIVIDEND YIELD       | 2.81%  | 2.88%    | 2.84%    |
| S&P 500 PRICE/EARNINGS RATIO | 19.9   | 19.5     | 21.3     |

### TECHNICAL INDICATORS

|                                           | Latest | Week ago | Reading  |
|-------------------------------------------|--------|----------|----------|
| S&P 500 200-day moving average            | 461.0  | 461.3    | Negative |
| Stocks above 200-day moving average       | 29.0%  | 29.0%    | Positive |
| Speculative sentiment: Put/call ratio     | 0.45   | 0.52     | Positive |
| Insider sentiment: Vickers sell/buy ratio | 1.10   | 1.07     | Positive |

BLOOMBERG FINANCIAL MARKETS, BRIDGE INFORMATION SYSTEMS INC.

|                          | 1-month | % change<br>12-month | Price   |
|--------------------------|---------|----------------------|---------|
| Strongest stock in group |         |                      |         |
| SCHLUMBERGER             | 9.7     | -0.8                 | 62 1/4  |
| UAL                      | 9.9     | 3.7                  | 128 1/8 |
| ROWAN                    | 7.7     | -9.1                 | 8 3/4   |
| ALCOA                    | 8.6     | 10.8                 | 79 1/4  |
| FORD MOTOR               | 9.4     | 19.9                 | 31 1/4  |
| Weakest stock in group   |         |                      |         |
| GIDDINGS & LEWIS         | -26.8   | -25.6                | 16 3/4  |
| ROADWAY SERVICES         | -11.5   | 6.7                  | 61 1/16 |
| MASCO                    | -12.2   | -5.9                 | 26 1/8  |
| ALZA                     | -13.9   | -10.9                | 22 1/2  |
| WALGREEN                 | -12.2   | -11.1                | 35 1/8  |

## MUTUAL FUNDS

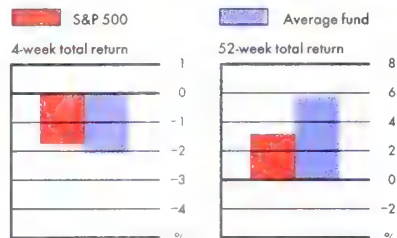
### ERS

|                                       | Week total return | % |
|---------------------------------------|-------------------|---|
| M GLOBAL                              | 6.3               |   |
| IGHT EQUIFUND JAPANESE NATL.FID.EQTY. | 6.1               |   |
| M INTERNATIONAL                       | 5.7               |   |
|                                       | Week total return | % |
| MCO EMERGING MARKETS INSTL.           | 43.7              |   |
| DDER LATIN AMERICA                    | 42.0              |   |
| RGAN STANLEY INSTL. EMERG. MARKETS    | 41.9              |   |

### LAGGARDS

|                                       | Four-week total return | % |
|---------------------------------------|------------------------|---|
| EXCEL MIDAS GOLD                      | -11.0                  |   |
| DEAN WITTER HEALTH SCIENCES           | -9.3                   |   |
| OPPENHEIMER GLOBAL BIO-TECH           | -8.8                   |   |
|                                       | 52-week total return   | % |
| MONITREND GOLD                        | -41.2                  |   |
| STEADMAN OCEANOGRAPHIC TECHNOLOGY     | -28.6                  |   |
| KEYSTONE AMERICA HARTWELL EMERG. GR.A | -26.2                  |   |

MORNINGSTAR INC.



## RELATIVE PORTFOLIOS

r amounts  
sent the present  
of \$10,000  
ted one year ago  
ch portfolio  
ntages indicate  
ay total returns

  
Foreign stocks  
**\$12,554**  
+1.44%

  
U.S. stocks  
**\$10,276**  
+0.35%

  
Money market fund  
**\$10,201**  
+0.05%

  
Gold  
**\$9,795**  
-0.26%

  
Treasury bonds  
**\$9,572**  
-0.92%

DRI/McGRAW-HILL

a on this page are as of market close Wednesday, July 13, 1994, unless otherwise indicated.  
y groups include S&P 500 companies only; performance and share prices are as of market close

July 12. Mutual fund returns are as of July 8. Relative portfolios are valued as of July 12. A more detailed  
explanation of this page is available on request. r = revised



## DON'T PULL THE PLUG ON HEALTH REFORM

Last year, health-care reform seemed so desirable. America's patchwork quilt of private and public health-care systems was badly in need of repair, and support for reform pervasive. Now, the drive for reform may be on the verge of breaking down. There are many reasons—from special-interest pressure to the sheer size and complexity of the problem. But the biggest challenge is President Clinton's insistence on universal coverage as part of any acceptable reform package.

There is reason for people to recoil at universal coverage, and it can be expressed in a word: money. Yes, the incremental cost of such coverage could be at least \$30 billion a year just to cover those now uninsured. That, plus billions more to subsidize small businesses, has sobered many reform supporters, such as business leaders, who initially enlisted in the cause as a way of cutting costs.

Yet arguments for spending the extra money to insure everybody are strong. Right now, most of the 37 million Americans without insurance are getting their health care in hospital emergency rooms. But hospitals build such costs into the rates they charge other patients—an inefficient system, to say the least. Changing the system would also allow people to seek better jobs without worrying about losing coverage and would thereby improve labor-market mobility. So the critical test for universal care is to satisfy medical needs and to do it in a way that will not send costs spiraling.

In an ideal world, all companies big and small would be required to offer health benefits to their employees. The program would not need to be prohibitively expensive. The mandated coverage could be bare-bones, perhaps the equivalent of basic hospital insurance, which would relieve workers of the worry that heart surgery or cancer treatments would plunge them into bankruptcy. If employers offered their workers more generous coverage or a menu of choices above the cheapest plan—as most would—employees could pay taxes on the excess benefit as if it were income. Companies would be free to negotiate discounts directly with health carriers,

as most big employers do now. Smaller companies could get the clout of big business by banding together in health-purchasing cooperatives. Such an employer mandate would bring into the system the workers who account for 75% of the uninsured adults. For the poor who need subsidies, the money could come from the taxes on health insurance beyond minimum levels or by raising cigarette and other sin taxes. For example, hiking the federal excise tax on cigarettes from 15¢ to \$2 a pack would bring in \$23 billion in new revenues.

Given current political realities, an employer mandate is unlikely to happen. A second-best solution is to not give up on universal health care and to accept that the transition will have to be gradual.

For starters, Washington shouldn't do anything that interferes with the private sector's stream of innovations to hold costs in check and should do anything it can to bolster competition in the health-care market. Already, employers have embraced with zeal the idea of "managed competition" and are using health-maintenance organizations and preferred-provider organizations to lower medical bills and monitor spending. The payoff has been dramatic: So far in 1994, medical care prices have risen at a 4.6% annual rate, down sharply from 9.6% in 1990.

A minimal plan would require ending certain common health-insurance practices. Insurance companies should no longer be able to discriminate against anyone with a preexisting condition or a propensity to get sick. Subsidies for the poor would be necessary, but the costs need not be excessive.

Washington always has difficulty enacting major institutional reforms without the spur of war or depression. A reforming the \$1 trillion health-care market is devilishly complex. President Clinton should be lauded for stimulating debate that may lead to change. Now is the time to accept modest reforms and declare victory. In a few years, policymakers could revisit health care and judge how well existing reforms have done. By then, the prospect of universal coverage may seem less intimidating.

## PROVIDING A STEADY HAND IN THE KOREAS

The Korean peninsula appears headed for one of the more decisive periods in its long, tortured history—one that will determine whether it builds a strong, unified nation or spirals downward. The challenge for the outside world, now that North Korea's longtime leader, Kim Il-Sung, is dead and his mysterious son, Kim Jong-Il, has taken the helm of this xenophobic country, is to watch North Korea through more than just the prism of Pyongyang's nuclear program.

Many South Koreans in government and business believe the overwhelming priority for their country is to begin building trust with their northern neighbor by adopting a step-

by-step economic engagement. This extremely complex process will be fraught with peril at every point. The near-universal expectation is that the younger Kim will not be able to manage his country ably. Watch for mounting pressure on South Korea to open trade and investment and to foster links with the north in order to prevent an economic meltdown and avoid an influx of hungry northerners.

During this delicate period, the U.S. in particular should continue talks with the north about its nuclear program while encouraging the south's attempts to reach out economically to the north. It's the best option for staving off chaos in the north and solving the nuclear problem.



# BusinessWeek

JULY 1, 1994

A MCGRAW-HILL PUBLICATION

\$2.75

# MANAGING BY VALUES



What is an "ethical" company? Levi Strauss CEO Bob Haas is putting his own strong views into practice. Here's an inside look at how it is—and isn't—working. PAGE 46

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HITTING THE BOOKS IN BANGLADESH: RATHER THAN FORCE A CONTRACTOR TO FIRE UNDERAGE WORKERS, LEVI'S SENT THEM TO SCHOOL

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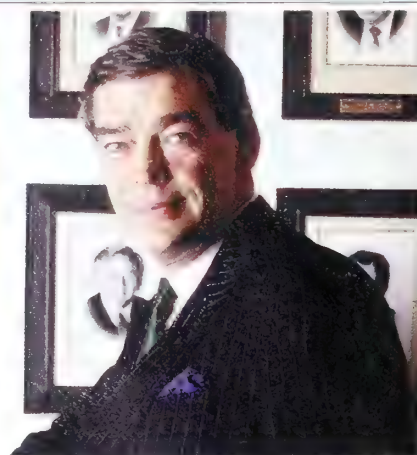




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# Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

## WHEELER-DEALERS

### TRUMP'S JUNK GAME IS COMING UP CRAPS

**D**onald Trump is abandoning his bid to peddle \$125 million in new junk bonds for his Taj Mahal casino—a big setback in his plan to shed his heart-stopping debt. The problem: very little market interest in buying the bonds. A person close to Trump says he's giving up because selling the deal "is like banging your head against the wall."

These bonds were offered three months ago to help raise enough cash to allow The Donald to buy back the 50% ownership in the Taj Mahal that he surrendered to creditors following the 1990 near collapse of his empire. The buyback would let him float a planned initial public offering of stock in the Taj and his two other Atlantic City casinos. The IPO proceeds, in turn, would help him pay \$235 million in other debt he has personally guar-

anteed, which his SEC filings say is due in mid-1995.

Why hasn't the new junk sold? After all, the plush Taj, Atlantic City's largest casino, is doing pretty well. For one thing, casino debt and IPOs have been in the tank since interest rates started climbing five months ago. For another, there's the threat of competition from proposed gambling parlors in Philadelphia and elsewhere. Finally,



THE DONALD AND THE TAJ: A big setback

the Taj offering is disturbingly like 1980s junk deals: The new bonds don't pay interest until 1999. Trump now must hope the market will improve so he can try another offer. The Trump Organization wouldn't comment. □

## IN THE DOCK

### NOW, HE'S GAMBLING ON THE JUDGE

**A**ddiction to gambling shows up at blackjack tables, horse tracks, and sports pools. So why not in the commodities pits? That's the argument of convicted felon Roy William Harris, who lost \$200 million of his company's money trading in oil commodities in 1991. As CEO of a now-defunct Stamford (Conn.) oil trading firm called Archem, Harris cooked the books to cover up



HARRIS: Less time

his losses, prosecutors say. Harris is asking a federal judge for a lighter term than the 15 to 24 years he can expect for bank and wire fraud. At his sentencing hearing July 18, his lawyer argued that Harris traded under a "diminished capacity" due to his compulsion. Defense witness Valerie Lorenz, executive director of the Compulsive Gambling Center, testified that Harris' trades became riskier as he tried to recoup. Example: He made \$60 million in one trade, only to keep trading and lose. □

## TALK SHOW

*We're off the radar screen. The analysts are 100% wrong.*

—CBS Chairman Laurence Tisch, telling reporters on July 19 that CBS is not for sale

## HONCHOS

### TCI'S DIVIDE AND CONQUER PLOY

**J**ohn Malone, chief of cable giant Tele-Communications Inc., loves doing deals. So soon, TCI officials say, Malone will restructure his \$4.2 billion company into four distinct units, a maneuver that could allow him to raise deal money more easily. The units: TCI's 10 million cable subscribers, its growing overseas operations, new high-tech ventures, and programming (such as the piece of Turner Broadcasting that TCI owns). It all shows that Malone is raring to go after TCI's megamerger with Bell Atlantic fell apart earlier this year.

This isn't just box-shuffling. Analysts believe the separ-

ate, more focused operation will better attract investors. PaineWebber's Christopher Dixon figures TCI could raise billions by selling a 20% to 30% stake in its cable system to AT&T or Microsoft. The test buzz is that Malone's programming unit would be



MALONE: More deals ahead?

ancing vehicle to H. Ross Perot, perhaps Ted Turner or Barry Diller, buy a stake in CBS or another broadcast network. As usual, Malone is mum. *Ronald Green*

## CAPITAL OFFENSES

### HEALTH-CARE BACKERS FROM THE GRAVE

**P**resident Clinton keeps hearing that small business dislikes his health-care package. So on July 19, he proclaimed the support of a group representing legions of small companies.

Some executives listed on the Small Business Coalition for Health Care Reform's roster, however, turn out to be opposed to the President's plan. One is even dead: Louis Slotnick of Chicago passed away 19 years ago, his family says. Another Chicago "member," Leona's Pizzeria co-owner Lawrence Suffredin, lobbies for the Illinois Restaurant Assn., a foe of Clinton-style employer mandates.

Audrey Mullen, a Virginia conservative activist, called the coalition seeking information to use against the Clintonites. Now, she's a member in good standing. She says

she has since found dozens on the list who have never even heard of the group.

The coalition's organizers, notably the National Association of Retail Druggists, don't say that they knowingly inflated

### CLINTON-PLAN BACKERS...

*Some listed members of pro-White House Small Business Coalition for Health Care Reform who don't belong on the roster*

|                                            |                                                                          |
|--------------------------------------------|--------------------------------------------------------------------------|
| <b>ELSTON METAL</b><br>Chicago             | Owner's father, listed as coalition member, has been dead for 19 years   |
| <b>LEONA'S PIZZERIA</b><br>Chicago         | Co-owned by lobbyist for the anti-Clinton-plan Illinois Restaurant Assn. |
| <b>FABRIC MAGIC</b><br>Murfreesboro, Tenn. | Owner opposes Clinton employer mandate. Lobbies friend signed up         |

their list. Of the 300-plus businesses listed, they say none were picked by members of Congress or such groups as the Health Care Reform Project. No comment from the White House. *Richard S. Dunham and Mike McNamara*



## What rain?

**Michelin MX4.** Most tires would rather stay in the garage on a day like this.

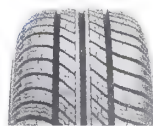
But the Michelin® MX4™ radial can handle a downpour. This superb wet-traction tire has an advanced tread pattern and a specially formulated rubber compound for excellent wet grip.

The wet-road superiority of the MX4 was verified by a nationally recognized independent lab that tested it against a well-known center-groove tire.

In the first test, the MX4 soundly beat the center-groove tire and two others in handling and control on wet surfaces.

In the second test, conducted over 42,000 miles, the MX4 beat the center-groove tire at every stage of head-to-head, wet-traction competition. The test found that as the

Michelin MX4



**MICHELIN'S THREE GROOVES ARE BETTER THAN ONE.**

Center groove



competitor's V-shaped center groove wears down, its ability to disperse water decreases significantly. But the three grooves of the MX4 are square, not V-shaped, so their ability to remove water doesn't diminish as rapidly with wear.

The tests also showed that the MX4 is more apt to outlast the center-groove tire, in addition to providing better wet traction over its lifetime. Another example of why Michelin is the brand of tire that people want most.

So let it rain cats and dogs. Let it come down in buckets. You're driving on Michelin's superb wet-traction MX4 tires.

What rain?



**MICHELIN®**  
BECAUSE SO MUCH IS  
RIDING ON YOUR TIRES.™



### A BIG HAND FROM THE LITTLE LADY?

**T**wo-earner households may rake in more income—but the husband in such a union pays a price. A new study finds that top male managers in dual-income families earned 20% less over five years than

groups of men are the same in every way, so traditional-minded bias is the logical culprit. In their survey of 348 top male managers at big corporations, the subjects were all in their late 30s, with comparable credentials, tenure, and job commitment. The traditional types, for instance, worked only slightly longer hours: an average of 53 hours weekly vs. 51. The men studied all had been transferred, so it's not as if someone's wife stopped him from making an important move for the sake of her career. Stroh says the results "should be sending a message" to Corporate America to get with it.

Perhaps. But Stroh and Brett didn't study wives. And they admit they didn't examine whether a nonworking wife serves as a resource for her husband. Phyllis Schlafly, a leading advocate of traditional family values, says the data show a stay-at-home "wife is a big asset to a man" by relieving him of housework and child-care distractions. In any case, such a wife is a dwindling asset: Only 16% of U.S. families with kids now fit the Ozzie-and-Harriet stereotype. *Michele Galen*

those with homebound wives. Why? To researchers Linda Stroh of Loyola University Chicago and Jeanne Brett of Northwestern, it's "corporate prejudice" against guys with employed spouses.

Their reasoning: The two

## NAME GAME

### FLY THE BORING SKIES

**O**rdinary triumphs again. United Airlines, just purchased by its employees, ran a contest to choose a name for the carrier's soon-to-debut short-haul, low-fare subsidiary. United's new airline-within-an-airline will bat-

te suggestions by focus groups of frequent travelers. They overwhelmingly picked United Shuttle as the one describing the airline's "key product attributes," says a spokesman.

Too bad. Among the pep-

py appellations that the company spurned: Lite Flites, United Delight, United Jr., U-Save, and Fare-Thee-Well Airlines. One employee suggestion for this tail end of United Air, rejected out of hand, was a saucy play on words: *Derrière.* *Susan Chandler*

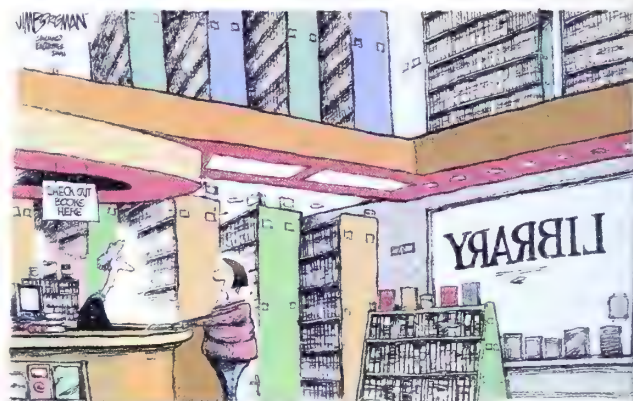


tle such feisty rivals as Southwest Airlines. But of the 1,300 entries—many of them quite jazzy—the company settled on a very prosaic moniker: United Shuttle.

What happened to creativity? Rather than take a big risk, United ran the name

## FOOTNOTES

## DRAWN AND QUARTERED



"ALL THESE BOOKS AND NO CAPPUCCINO BAR?"

## POLITICAL CORRECTNESS

### THE SCRAP OVER SHAWMUT'S SYMBOL

**I**s Shawmut National's corporate logo respectful of Native Americans or politically incorrect? The answer isn't clear, even to Indians, who are divided on the subject. The dustup started when New England's third-largest bank recently began placing its 82-year-old logo—an imposing bust of Obbatinewat, who was chief of the Shawmut tribe in the early 1600s—on the 33 branch offices of its newest acquisition, New Hampshire's New Dartmouth Bank.

But then Indians from Dartmouth College objected. "It's a stereotype image and does not reflect the reality of the native people," says Michael Hanitchak, a film in-

structor and Choctaw from Oklahoma who heads Dartmouth's Native American Council.

Some New Hampshire Indians disagree. Sharon Hunt, a representative of Drum In, a support group for the native Western Abenaki tribe, backs Shawmut because it donated five acres of land to Drum in February. "It was like a sign to us," she says.



**Shawmut**

"We're very appreciative," she adds, she likes Shawmut's Indian: "We think he's rather handsome."

Shawmut is taking things slowly. The bank won't put up the Indian logo "until we come to an understanding with all sides," says a spokesman. *Geoffrey Smith*

## THE BIG PICTURE

### WHERE NEXT?

Americans are still on the move, and they're bounding for places with lower costs of living, better job opportunities, and lower crime rates. A survey of inbound vs. outbound residents for the past 12 months showed the most popular destinations.



U.S. households with a cellular phone, 1990: 2.8%. In 1993: 10.7%

The

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it.

Obvious, right? Yet so often overlooked. Particularly when it comes to insurance. It's amazing how your property, casualty and life coverage can work for you once you understand it. That's why at USF&G, everything we're doing is directed toward simplifying and clarifying an otherwise confusing process. [In fact, we're out to change the very nature of insurance.] With new talents, technologies and products to draw from, our agents can make your money work harder. [So you can get what you need, and eliminate what you don't.] Ask an independent agent about USF&G, and find out just how we'd handle your business or personal insurance needs [hint:differently].

THE DIFFERENCE IS UNDERSTANDING



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INSURANCE



# E-MAIL FOR PEOPLE PLACES TO GO A

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Mail's Out of Office feature will automatically forward a message to everyone who tries to get in contact with you while you're out.

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For a start, Microsoft Mail works perfectly with what you already have. Whether you're in MS-DOS, the Windows™ operating system, on a Mac, or OS/2. And you can send mail without

processor. Whether you're in Microsoft Word, Microsoft Excel, Lotus 1-2-3 or WordPerfect.

*With Mail Remote, you don't need to be in your office to keep in touch. And with wireless service you don't even need to be near a phone. You can log in anywhere.*



*With electronic forms, you'll be able to track expense reports, vacation requests and other important forms as they speed safely through your company.*

just as easy to use as Mail. Like Schedule+, the best-selling scheduler for Windows. It helps you manage your calendar and reminds you of meetings and deadlines. It even shows you when everyone is free. So you can schedule meetings without a lot of legwork. Microsoft electronic forms look

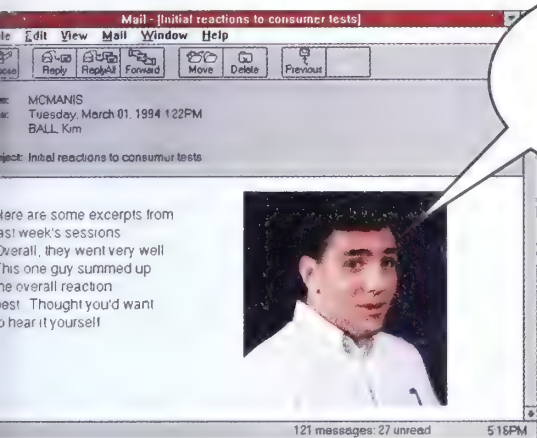


# WITH THINGS TO DO, PEOPLE TO SEE.

u speed expense reports, vaca-  
n requests and other important  
ms through your office at the  
eed of light. And with electronic  
ms you can track them easily.

you're on the road. Not only that, it  
can also save you money. Just read  
the important messages, then let  
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more, just add one more thing to  
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to what you can send.

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**Microsoft**



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## VAGELOS AND THE SEARCH FOR HIS SUCCESSOR AT MERCK

I read with interest your article on the Merck CEO search (Top of the News, June 27). Unfortunately, it contained a factual error.

The statement that [outgoing CEO] Roy Vagelos' role in the search was "carefully limited" by the board is not true. In fact, his involvement was an integral and extremely important part of the search process. He participated in all of the relevant meetings and was fully involved in the decision process. His insight, wisdom, and participation were most important to the successful outcome of the search.

Under Roy Vagelos, Merck has had a remarkable and unprecedented record of accomplishment. Highly effective new drug introductions have created strong growth. New strategies to deal with the changing health-care environment have been implemented, including the acquisition of Medco Containment Services and leadership in restraining prescription drug price increases.

Bruce Atwater

Director

Merck & Co.

Chairman and CEO

General Mills Inc.

Minneapolis

## AIRBUS PROBLEMS: IMAGINED OR REAL?

Your article on aircraft accidents, "That sinking feeling at Airbus" (International Business, July 18), is a rush to judgment that does not evaluate the facts or reflect reality. BUSINESS WEEK's attempt to link three accidents to fly-by-wire (FBW) flight-control technology is incorrect and inappropriate. Citing the recent crash of a flight-test aircraft performing an engine-out take-off maneuver, you see "ominous similarities to two other Airbus crashes." That flight, well beyond the range of normal airline operations, was conducted to establish safety limits as part of the certification process.

One of the two other incidents refer-

enced occurred in Nagoya in April: This was a completely different type of aircraft—a non-FBW airplane. We await the report of the official investigation team.

Second, you point to an aircraft that in 1988 "crashed in France when its computers were unable to help it clear the forest." That accident resulted from the airline-operated aircraft being flown at 30 feet above a short grass airstrip in a local air show demonstration and into the forest. (Airbus pilots are restricted to 300 feet in such demonstrations.) Computers cannot see forests or mountains. However, because of the aircraft's low speed and high angle of attack, the FBW system maintained the aircraft in a stable wing-level attitude, avoiding a deadly stall, that saved 130 of 132 people. The captain was stripped of his license.

Although the official probable cause of the third accident has not yet been released, the high probability may result with the fact that the Russian captain's 15-year-old son was permitted to sit in the left seat with the aircraft flying at a cruise altitude above Siberia.

And your unidentified airline executive can be assured that the airline and aircraft industries will be fully apprised of all investigation results, just as we study other manufacturers' accidents to maximize the safety of our airplanes.

Every accident is a tragedy felt deeply by the aircraft manufacturer and the airline. But your article's headline reflects more of an attempt to be clever than a clear understanding of the attitude at Airbus and the full belief we have in our aircraft.

David C. Ven

Vice-President, Communication

Airbus Industrie of North America Inc.

Herndon, Va.

While Airbus is quick to conveniently dismiss their rash of crashes as "pilot error," they seem reluctant to ask themselves the obvious question: Why are Airbus aircraft so prone to pilot error?

Patrick Palazzolo

Communications Chairman

San Francisco Council 3

Air Line Pilots Assn.

Fremont, Calif.

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Rain forests occupy just 2% of the earth's surface. Yet, these rain forests are home to half of the planet's tree, plant and wildlife species. Tragically, 96,000 acres of rain forest are burned every day.

You can help stop this senseless destruction. Right now you can join The National Arbor Day Foundation, the world's largest tree-planting environmental organization, and support Rain Forest Rescue.

When you join, you will help establish natural rain forest barriers to stop further burning and support on-site conservation management plans to protect threatened forests.

You'd better call now.



 The National  
Arbor Day Foundation

Call Rain Forest Rescue.  
1-800-255-5500

## Readers Report

### THE DRAW OF THE HEARTLAND

**A**s an executive-search consultant, is a pleasure to work with clients in the Midwest ("America's heartland," Cover Story, July 11). Finding candidate willing to relocate is rarely an issue. But trying to convince candidates to relocate to either of the coasts is another story. What a difference a few years can make.

Stanley Herz  
Principal  
Stanley Herz & Co.  
Somers, N.Y.

### IN DEFENSE OF DEVELOPMENT BANKS

**Y**our article "Development Banks: an idea whose time has gone" (Economic Viewpoint, July 11) makes a number of very questionable assertions about the contributions of institutions such as the Inter-American Development Bank. In fact, our record of accomplishment is one in which all of our 46 member countries take great pride.

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Muni Figueres de Jimenez  
External Relations Advisor  
Inter-American Development Bank  
Washington

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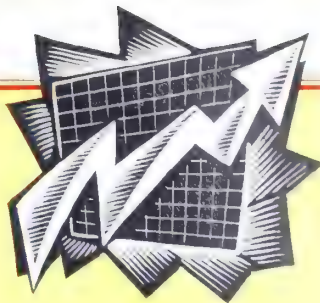
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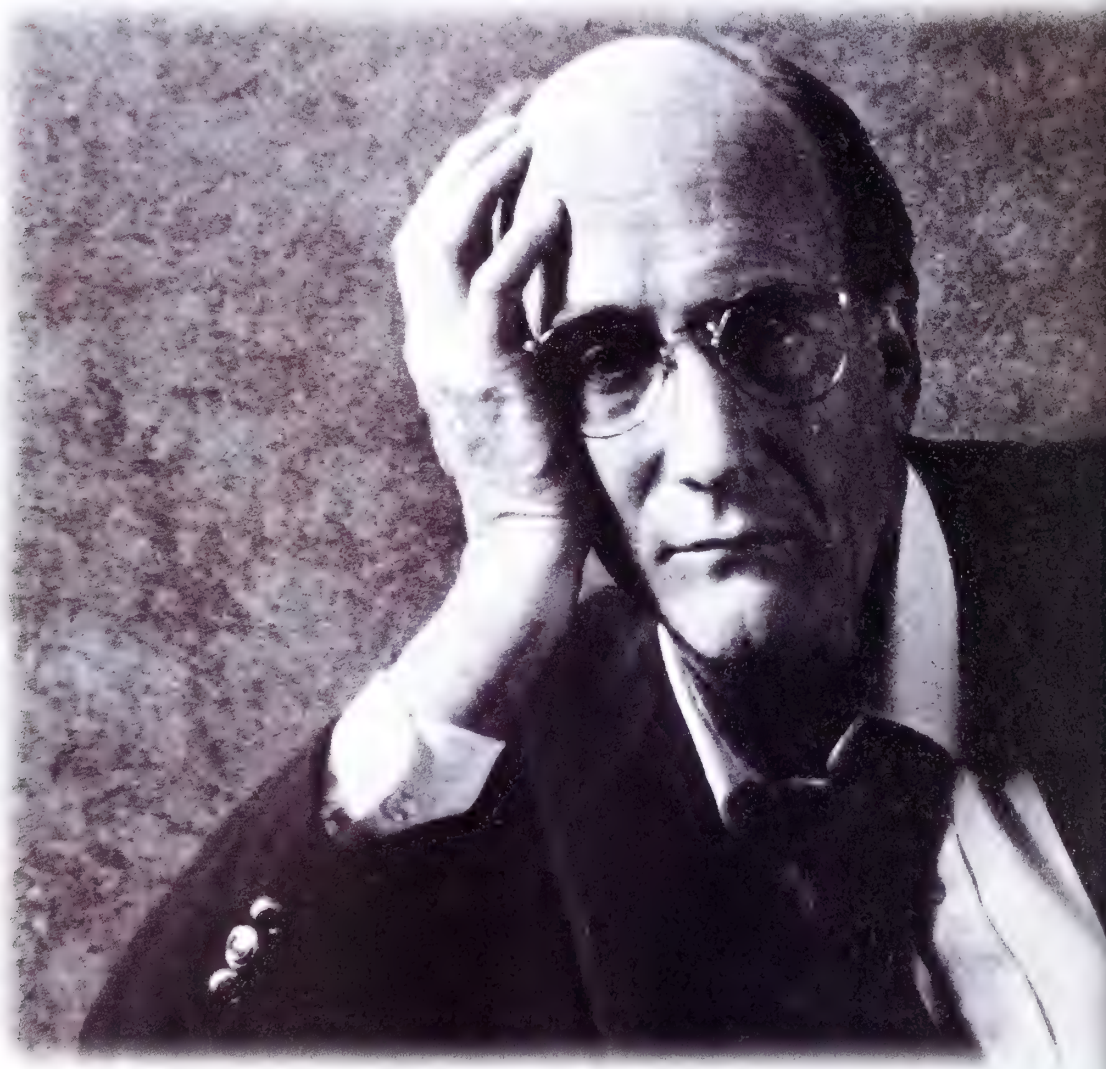


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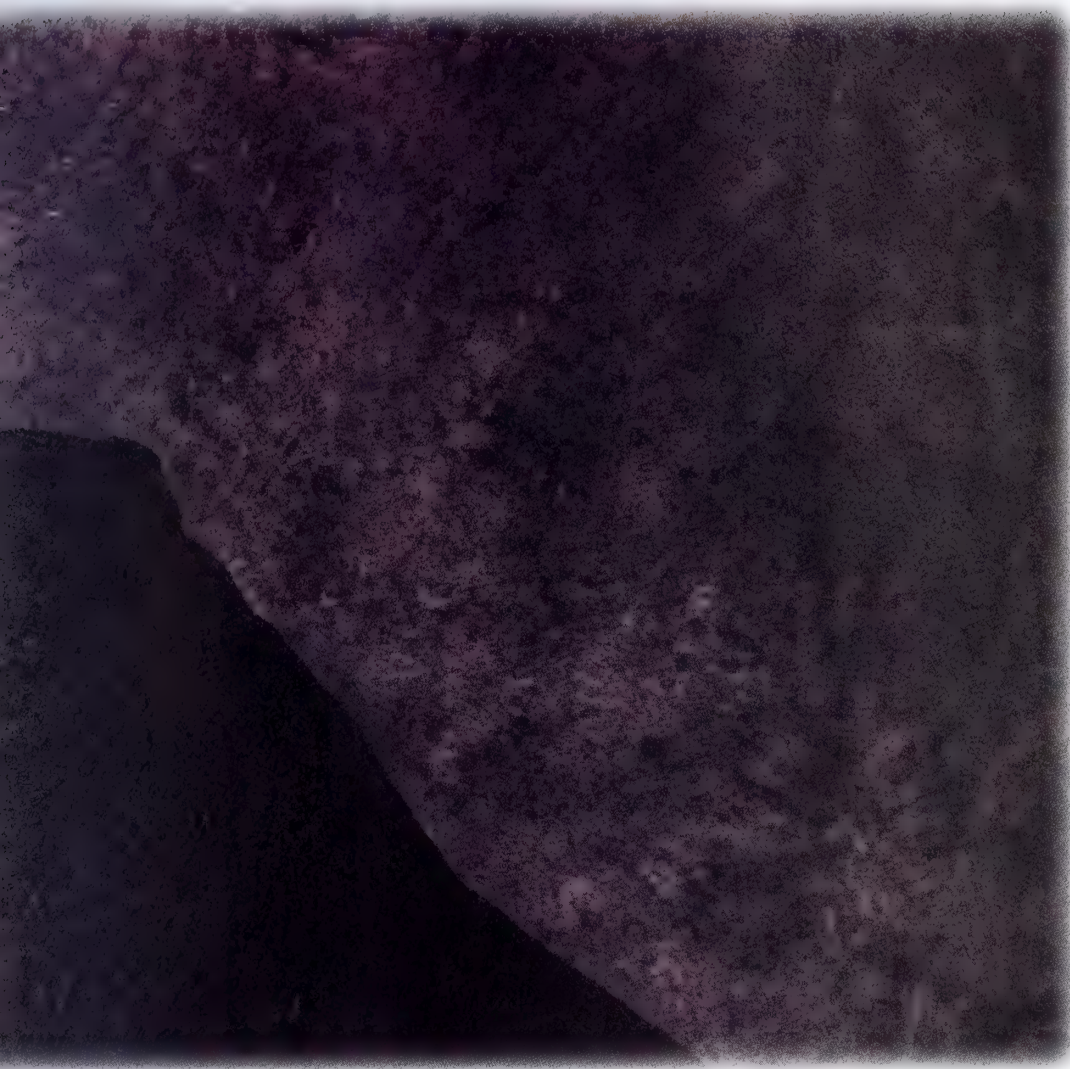
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# LIES, DAMN LIES, AND PRODUCT RESEARCH

In the late 1980s, few environmental-ly concerned parents could use disposable diapers without feeling guilty. Just imagine all that plastic, pa-and chemical goo—not to mention the contents of the soiled diapers—sitting degraded in landfills for untold years! Then, in 1990, Procter & Gamble Co. we could relax. According to a study funded by the maker of Pampers Luvs, when one evaluates all the environmental costs of making, using, discarding disposable and reusable ers, the disposables are no worse

“the more the study defies common wisdom, the more likely it is to enjoy wide acclaim.” Among the examples she cites:  
■ Eating white bread won’t make you gain weight. This was the finding of a study in which some subjects added eight slices of bread to their daily diet for eight weeks. The sponsor of this revelation? Wonder Bread.  
■ Chocolate may inhibit cavities, said the Princeton Dental Resource Center, citing a study indicating tannins in cocoa inhibit plaque formation. Who funds the center? M&M/Mars Inc.

tive. The other disagreed. The first scientist’s lab had collected \$1.6 million in grants from drugmakers, while the critic had refused such money. The opposite findings hinged on different study durations, different testing instruments, and different interpretations of results.

The study endorsing the drug’s effectiveness was accepted by the prestigious *New England Journal of Medicine* as the version “authorized” by the university—itself a recipient of much money from drugmakers, according to Crossen. The critic’s study wasn’t published for nearly five years, until 1991, when the *Journal of the American Medical Association* ran it. As it turned out, its findings were bolstered by a broad, 3,600-child study that found higher rates of recovery in those who didn’t get antibiotics.

Slicing data differently can make the truth remarkably pliable—and money makes such recasting all too alluring, Crossen persuasively warns. Onetime

biotech star Centocor, she notes, saw the fortunes of its \$3,500-a-dose medicine for septic shock fade when it couldn’t show effectiveness 14 days after treatment. When marginal improvement seemed to show up 28 days after treatment, it asked regulators to change the study’s endpoint. The Food & Drug Administration declined, and in January, 1993, a new trial vanquished the drug: More patients died using it than died on a placebo.

Some studies are more valid than others, of course, just as some researchers are more honest or more competent than others. Yet Crossen is frustratingly reluctant to choose

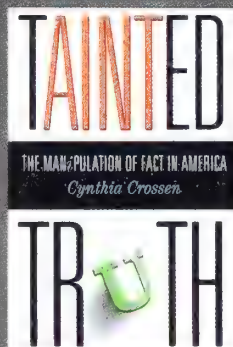
between opposite findings. True, a detailed examination of the dozens of studies she refers to—on everything from the role of milk in juvenile diabetes to the rate of heart attacks among bald men—might be impractical and would make an already dry book downright arid. But her noncommittal stance is also a cop-out, since she asks the media to more aggressively separate the wheat from the chaff.

Still, *Tainted Truth* amply illustrates how easy it is to dress up a one-sided sales pitch with good-looking numbers and spin a story whichever way is convenient. No matter how impressive a new study seems, clearly *caveat emptor* must be the rule.

BY JOSEPH WEBER

Weber, who covers drugmakers, is often awash in data.

Crossen shows how  
impressive numbers  
can put whatever  
spin is desired on  
a sales pitch



■ Almonds, walnuts, rice bran, and citrus all aid the cardiovascular system. So say separate studies touted by the Almond Board of California, the California Walnut Commission, the Rice Council, and the Florida Citrus Commission.

Crossen also explores cases in which dueling studies have weighty policy or public health implications. Consider the tobacco industry’s research group, which since 1954 has doled out more than \$165 million to 800 scientists who overwhelmingly tended to reassure smokers. The flood of data helped delay for years the reckoning tobacco merchants now face.

Drugmakers are another of Crossen’s targets. In one case, she reports, feuding University of Pittsburgh researchers reached opposite conclusions about the treatment of children’s middle-ear infections. Reviewing the same data, one pronounced the antibiotic amoxicillin effec-

erica, a shrewdly concocted study to prove virtually anything. The proposable studies, she reports, helped legislation nationwide that would impose bans, taxes, or warning labels. Says a policy analyst she quotes: “I went from being one of the most obvious examples of a choice where one was clearly right and one was wrong to a completely muddled argument.”

Dissecting studies done by and for environmentalists and the makers of drugs, breast implants, and foods, Crossen shows how often self-interest tends to dictate the outcome. The parameters of research are malleable, even within ethical limits, she notes, and buy-ers of research need publicize only favorable findings. A *Wall Street Journal* editor, Crossen also lambastes the media for uncritically reporting studies. When it comes to nutrition research, she notes,



EDITED BY STEPHEN H. WILDSTROM

## NETWORKING FOR THE REST OF US

In recent years, the local-area network has become a commonplace of corporate life. Whether it uses a powerful computer called a server as the focal point or simply lets computers talk directly to each other, a net is a potent tool. Workers who once used typewriters or mainframe terminals now log in to the LAN to exchange E-mail, retrieve information from corporate databases, or send files to a networked laser printer.

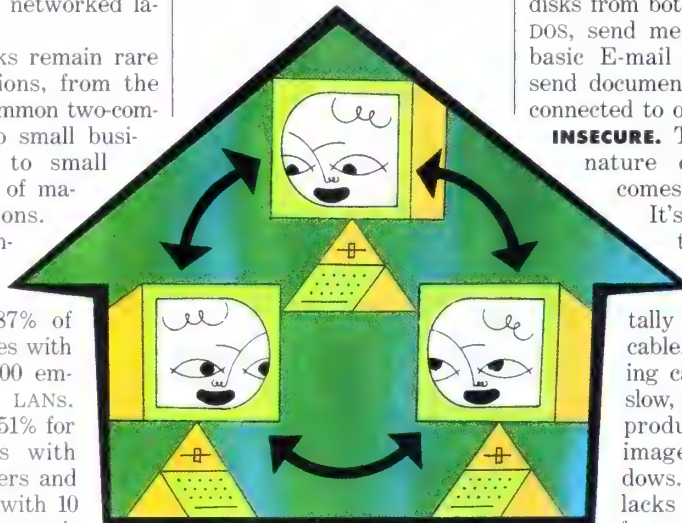
But networks remain rare in some locations, from the increasingly common two-computer home to small businesses, even to small branch offices of major corporations. According to industry analyst International Data Corp., 87% of U.S. enterprises with more than 1,000 employees have LANs. That drops to 51% for establishments with 50 to 99 workers and 32% for those with 10 to 19. The reason is

simple: Most networks are too expensive and complicated, demanding more in hardware and, especially, skilled administration than tiny organizations can afford.

**PAIN-FREE.** A new version of Artisoft's LANTastic networking system should change the small-office landscape by bringing the ability to hook up computers and share data, programs, and printers within the reach of everyone. Simply LANTastic, the latest addition to a product line that has dominated the low end of the personal-computer market since its introduction in 1987, approaches the sort of painless networking that has long been built into Apple Com-

puter's Macintosh hardware and software.

Unlike Novell's NetWare, which claims two-thirds of the worldwide LAN market, LANTastic does not require that a computer be set aside to act as a central file server—not to mention \$700 for a minimum five-user software license and at least \$100 apiece for network adapters. Simpler networks, such as Microsoft's Windows for Workgroups,



### Forget the file-server computer—and the \$700 software license

usually require users to make confusing configuration decisions and work with fussy coaxial cables.

Simply LANTastic's startup kit (\$299 list) comes with network adapters for two computers, a connecting cable, and software. You have to open your computers to plug in the adapters (external adapters are available for an extra \$50 each, but they may leave you with no place to attach a printer). Simply LAN-

tastic can handle up to 30 computers.

Because I have considerable experience in setting up networks, I handicapped myself by attempting to set up a Simply LANTastic network without looking at the slender instruction manual. The hardest part of the job was getting the covers off the machines. The adapter cards pop in with no fuss. And don't worry about those specialized and often difficult cables used to hook up other networks—including regular LANTastic. Simply LANTastic uses miniature phono plugs, such as those on a Walkman. Within five minutes, the two computers were set up so that they could read each other's hard disks from both Windows and DOS, send messages using a basic E-mail program, and send documents to a printer connected to one machine.

**INSECURE.** The idiot-proof nature of this setup comes at some cost.

It's a bit too easy to knock out the network by accidentally disconnecting a cable. Remote printing can be painfully slow, especially when producing graphic images from Windows. And LANTastic lacks the security features of more so-

phisticated systems, basically assuming the network is being used by honest folks.

Linking computers should continue to get simpler. Networking software is built into Chicago, Microsoft's upcoming replacement for Windows. The new "plug and play" standard should eliminate the guesswork and frustration of configuring network cards. Some computer makers are even following the Mac lead and shipping machines with built-in networking hardware. But you needn't wait. Simply LANTastic links even the smallest two-computer office—or just the kids who want easy access to the laser printer on mom's computer. S. W.

## BULLETIN BOARD

### SECURITY

#### CHARGE IT—WITHOUT WORRY

The use of wireless communications technology is making it safer for diners to pay with credit cards in restaurants. The new Folio device from VeriFone, a manufacturer of credit-card-verification gear in Redwood City, Calif.,



makes it possible for you to settle your bill without ever letting go of your card. The waiter brings the calculator-size Folio to your table with the check. You run your card through a swipe reader, verify the bill, and punch in a tip and total.

The waiter takes the Folio to a VeriFone terminal and dumps the information over an infrared link. The terminal gets authorization from the credit-card company and spits out a receipt. In addition to providing greater security, the device allows use of bank ATM cards because the user can punch in a personal identification number.

### COMMUNICATIONS

#### NEW, IMPROVED E-MAILBOXES

E-mail could get easier for users of Internet mail or other programs based on the Unix operating system. Pronto for Windows (\$99) by CompuTouch in San Mateo, Calif., brings to Unix the sort of mail box management that's available on CompuServe and other commercial services. The program lets users download their mail and read, sort, and compose messages while off-line.



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## THE BIG SNAG IN THE GLOBAL ECONOMY

BY ROBERT KUTTNER



Alas, GATT won't give nations the tools they really need for economic management. Whether it be to help a weak dollar or a recovering industry, a little national autonomy is not a bad thing

**W**hat to do about the dollar? If the Federal Reserve raises interest rates to support the dollar, we undermine economic recovery. But a policy of benign neglect only invites the speculation against the dollar to feed on itself.

The dollar dilemma is part of a deeper confusion. How can we reconcile increased global economic integration with coherent rules for the system? When a California manufacturer "exports" product to New York, there is no exchange-rate risk. When a Massachusetts high-tech company manufactures in Vermont, there is no worry that weaker patent laws invite piracy. But foreign trade remains a game played by inconsistent rules. Many nations consider piracy a normal tool of technology transfer. Currency swings wreak havoc with investment plans. Thus, the ambiguous blessing of globalism.

The latest attempt at coherent rules, the General Agreement on Tariffs & Trade (GATT) now awaiting ratification, envisions a global economy largely under laissez-faire terms. The accord cuts tariffs, discourages subsidies for economic development, and prohibits national retaliation against the mercantilism of others. It makes modest headway on a framework of intellectual-property protection. But it does nothing to bring about a more predictable monetary or macroeconomic environment, let alone labor or environmental standards.

We have backed into a brand of global integration dramatically different from the kind imagined 40 years ago this summer, when the Bretton Woods system was launched. The architects of the postwar system believed in a mixed economy. They believed stable and managed exchange rates would allow nations to maximize macroeconomic management and economic growth. They were committed to full employment. They wanted to restore normal flows of private commerce, but with the laissez-faire of the 1920s and the ensuing havoc of the 1930s fresh in their minds.

**DANGER ZONE.** The present design of the global economy increasingly denies individual nations the tools of economic management without offering a substitute set of global tools. It thus portends a dangerous interregnum. And in some respects, policies are marching in opposite directions.

The Clinton Administration wants to subsidize development of a domestic flat-panel display industry. With the cold war over, this is a civilian technology initiative. But ironically, under the GATT accord, sponsored by the same Administration, such technology subsidies are permissible only for national security.

Mary Ellen Kelley, visiting professor of technology policy at the Massachusetts Institute of Technology, observes that tightening global patent protection but giving up domestic technology subsidies is a de facto industrial policy. It favors some industries—chemicals, pharmaceuticals, software—at the expense of others. In the 1980s, the U.S. used domestic trade law to protect such industries as semiconductor manufacturers against Japanese mercantilism and used temporary import restraints to give other industries, such as autos, a respite in which to reinvest and recover. These measures will soon be GATT-illegal.

**NO NETS.** By laissez-faire lights, such government intervention always backfires. But as Alan Tonelson of the Economic Strategy Institute notes in the July-August issue of *Foreign Affairs*, the auto, steel, semiconductor, machine-tool, and textile industries all used temporary protection in the 1980s to invest and restructure to become more efficient and competitive in 1990s. These are the tools of national economic development we are giving up in the new global trading order.

Moreover, with freer commerce in goods, services, technology, and finance, but without global labor standards, we invite a system of development built on cheap wages. Yet despite the cheaper labor, the primacy of the money markets denies us full employment.

In principle, we should just let the dollar go, trusting that markets will eventually get it value right. But currency markets often over shoot. Just as the dollar was disastrously overvalued in the early 1980s, it could become dangerously undervalued in the 1990s. A falling dollar makes foreigners reluctant to hold U.S. debt. It means cheaper U.S. exports—but also cheaper U.S. assets and lower real U.S. wages. It is bearish news for domestic stock and bond markets, which suspect the Fed must raise rates sooner or later.

The solution to the Hobson's choice of a plummeting currency vs. an aborted recovery is a different global monetary system, one that restores some national autonomy. We need to go back, at least partway, to the Bretton Woods model: adjustable target zones for currencies, concerted management of exchange rates, discouragement of purely speculative currency trades.

More broadly, a different monetary system implies revision of first principles. We need to temper our faith in pure markets and to reclaim a realm for policy. This century's history shows that the sustainable brand of capitalism is built on mixed economies, not utopian one viable only in textbooks.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ-FAIRE

( Wick Simmons, CEO Prudential Securities )

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BY DEAN FOUST

## WOULD MUTUAL-FUND HOLDERS PANIC IF STOCKS PLUNGED?

**W**ith millions of individuals still pouring money into mutual funds despite the market's recent gyrations, some seers fear that a nasty spill in the stock market could easily spiral out of control if novices panic. And the plunge could affect the real economy, as battered investors rein in their spending. To prevent such a chain reaction, economist Henry Kaufman suggests a cooling-off period, perhaps up to 90 days after investors put in their sell order, before they can take their money out of the fund. "There is a possibility that mass liquidations will cause significant price declines in the equity

sharp market decline will wreck consumer spending. The markets suffered some sharp downturns during the 1950s and 1960s, when households held as much in stocks and bonds as they do now, yet consumer spending growth remained relatively stable. Citing other Fed research that suggests households reduce consumption by 5¢ for every \$1 decline in their wealth, Morgan calculates that a 1987-scale market crash would cut consumer spending by no more than \$66 billion—or 1% of gross domestic product.

## DUMPING: IN THE U.S., A CLAIM IS ALMOST AS GOOD AS A CONVICTION

**M**any U.S. industries feeling the pinch from foreign rivals have turned to Uncle Sam for relief. They ask the Commerce Dept. to investigate whether foreign companies are dumping imports at prices below market value—presumably in an attempt to drive their U.S. competitors out of business.

On occasion, the government rules in favor of the domestic industry. But it turns out that the mere filing of an antidumping suit is often enough to provide relief for domestic producers. That's the finding of a study by Robert W. Staiger of the University of Wisconsin and Frank A. Wolak of Stanford University. The researchers, writing in the *Brookings Papers on Economic Activity*, contend that investigations—and the threat of duties—often prompt importers to reduce shipments, raise prices, or do both. Using data on U.S. antidumping petitions filed from 1980 to 1985, the economists estimate imports fell while the U.S. government was investigating the dumping charge by roughly half the amount that would be expected if duties had been imposed from the start of the investigation.

And don't think the preemptive effect of these suits is lost on U.S. producers. Staiger and Wolak say some cases seem "driven largely by a desire to secure the trade-restricting effects generated by the investigative process itself."

## BOOSTING TAXES ON FOREIGN COMPANIES CAN BACKFIRE

**T**o mitigate against currency swings and dumping suits, many foreign companies have shifted production to the U.S. But that move opens the for-

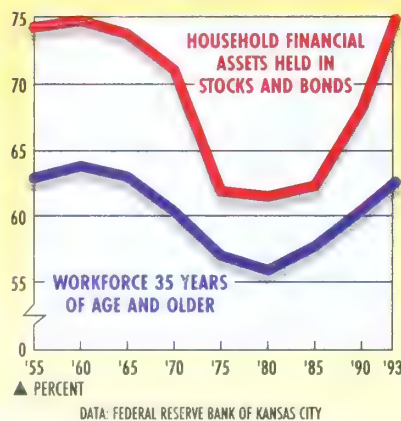
eign company to another attack—that underpays taxes, thanks to some accounting legerdemain that inflates its production costs here. During his election campaign, President Clinton vowed to crack down on these scofflaw corporations, and the Administration may soon seek to boost tax collections from foreign transplants. At the same time, multinational corporations face similar pressure elsewhere: Japan, for example, recently slapped large tax assessments on Coca-Cola, Ciba-Geigy, and Roche to end what Japan perceived as "transfer-pricing abuses."

Yet a new study by two Columbia University researchers, Jason Cummins and R. Glenn Hubbard, suggests that the costs from governments' looking to crack down on multinational companies could outweigh the benefits of any incremental revenue gains. Specifically, multinationals facing the prospect of sharply higher taxes in foreign markets are very likely to reduce capital investment in those locales. By looking at reports filed by several hundred subsidiaries of U.S. multinational corporations from 1980 to 1991, the pair discovered that each percentage-point increase in the tax-adjusted cost of capital led to a 1 to 2 percentage-point decrease in the annual rate of investment. "There had been an opinion among some economists that taxes didn't matter in foreign direct investment," says Hubbard. "But we found that taxes were a very big determinant of FDI."

## AMERICA'S WAR ON POVERTY HAS BEEN GOING BROKE

**T**he Clinton Administration has modestly increased funding for low-income programs. But over the past decade, the federal government's anti-poverty campaign has suffered major losses during this era of fiscal conservatism and nagging inflation, according to Washington-based Center on Budget & Policy Priorities. The center calculates that in the current fiscal year, federal appropriations for nonentitlement programs for the poor will run 40% lower in inflation-adjusted dollars than in fiscal 1981. The biggest cutbacks have come in subsidized housing programs, which—adjusted for inflation—have been slashed 62% since 1981. Other cutbacks, after taking inflation into account, include employment and training programs, down 59%; community-development block grants, down 29%; energy assistance, down 54%; and legal services, down 26%.

## AN AGING WORKFORCE INVESTS IN THE MARKETS



markets," says Kaufman. "This is a risk that has not yet been tested in the post-war period."

But the fears may be overblown. Yes, the share of household financial assets now held in stocks and bonds is at 75%, the highest level since 1961. But most individuals are investing for the long haul, namely retirement, says Donald P. Morgan, a senior economist at the Federal Reserve Bank of Kansas City. Writing in the bank's latest *Economic Review*, Morgan notes that the stock and bond investing boom closely parallels another trend: the aging of the workforce. Since 1978, the percentage of all workers 35 and older—the age at which most individuals begin to plan for retirement—has grown from 56% to nearly 63% (chart). To Morgan, that explains a good part of the move into financial assets.

Morgan also disputes the idea that a



## SHY SHOPPERS, CROWDED SHELVES SPELL SLOWER GROWTH

**M**arket players are always more interested in where the economy is going than where it has been. But when the Commerce Dept. takes a look back at last quarter's gross domestic product on July 29, including three years' worth of revisions, there might be a message about the future as well. In general, economists expect growth to have been a shade faster in the second quarter than the 3.4% annual rate of the first quarter. But when the number comes out, check the mix. The monthly data show that overall demand, especially consumer spending, slowed sharply last quarter (chart), and the huge widening in the May trade deficit indicates that foreign trade also was a drag. At the same time, inventories piled up, accounting for a big chunk of the quarter's growth.

That combination could depress third-quarter GDP, as businesses cut back on ordering and output in order to whittle down stock levels. Also, last quarter's big bounce back in construction from the first quarter's weather-depressed levels is not sustainable in the third quarter, in the face of rising interest rates.

No kidding. Housing starts plunged 9.8% in June, to an annual rate of 1.35 million, the lowest level since February.

While permits to begin new construction fell for the second month in a row. In July, builder surveys noted declining sales activity, and mortgage applications to buy a home dropped to their lowest level in a year and a half.

### GREENSPAN HINTS AT ANOTHER RATE HIKE

The apparent mix of the second-quarter GDP, especially the slippage in demand, is further evidence that inflation will remain subdued. Any immediate rate hike before the Federal Reserve's Aug. 16 policy meeting, as some Fed watchers expect, would be difficult to justify. Indeed, Fed Chairman Alan Greenspan suggested during his semiannual congressional testimony on monetary policy on July 20 that another rate increase was not imminent. He said that "considerable uncertainty" about future growth and price pressures was voiced at the July 5-6 policy meeting—a reason why the Fed kept rates steady. However, he also said that the Fed's near-term inflation-control efforts may not be complete, leaving the door open for another hike later on.

But if the central bank's latest forecast is on the mark, there will be little need for further tightening. The Fed sees the economy settling into "more moderate rates of growth" through 1995, with inflation remaining "relatively subdued" (table). In fact, if second-quarter growth is about as expected, the Fed's projections imply that real GDP growth in the second half will slow somewhere between 2.6% and 3%.

### CONSUMERS TAKE A SPRING VACATION

Consumer spending—two-thirds of GDP—led last quarter's falloff in demand. Retail sales rose 0.6% in June, after declines in both April and May. For the quarter, inflation-adjusted sales posted only a slim gain, part of a progressive slowing since their fourth-quarter free-for-all. Based on the retail data, consumer spending strained to rise at a 1% annual rate last quarter, the weakest advance in five quarters.

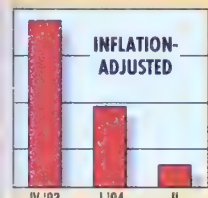
Consumers appear to be constrained by a lack of savings, especially now that the refinancing windfall has played itself out. During the past three quarters, real consumer spending has risen at a 4.7% annual rate, while real income is up only 3.4%, causing a big drop in the savings rate. The record surge in consumer installment debt since February might be reflecting consumers' increased tendency to borrow in order to make up the difference.

The problem: Last quarter's consumer retrenchment fueled a steep buildup of inventories. Stock levels of manufacturers, wholesalers, and retailers jumped 1.1% in May, the biggest increase in five and a half years. Some 43% of that surge occurred at retailers, with an additional 37% at wholesalers (chart, page 22). Retail inventories soared by 1.5% in May, the largest increase in six and a half years.

Not only were June retail sales too tepid to pare down the problem, but July receipts also look weak. Sales at department and chain stores in the first two weeks of the month fell 0.9% from June, says *Johnson Redbook Report*.

Manufacturers continue to keep their stocks under tight control, but the inventory backup in retailing and wholesaling already appears to be curtailing some industrial activity. Industrial production at the nation's factories, mines, and utilities rose 0.5% in June, but that mainly re-

### RETAIL SALES HAVE COOLED OFF



DATA: COMMERCE DEPT., BUSINESS WEEK

### HOW THE FED SEES THE ECONOMY

CENTRAL BANKING PROJECTIONS  
PERCENT CHANGE, Q4 TO Q4

| REAL GDP                     |                  |
|------------------------------|------------------|
| 1994                         | 3% to 3 1/2%     |
| 1995                         | 2% to 2 3/4%     |
| CPI INFLATION                |                  |
| 1994                         | 2 3/4% to 3%     |
| 1995                         | 2 3/4% to 3 1/2% |
| UNEMPLOYMENT RATE (Q4 LEVEL) |                  |
| 1994                         | 6% to 6 1/4%     |
| 1995                         | 6% to 6 1/4%     |

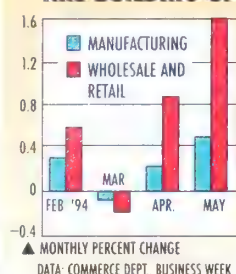
DATA: FEDERAL RESERVE BOARD



flected a 5.4% jump in utility output as air conditioners worked overtime in the unseasonably hot weather.

Output in manufacturing alone rose only 0.2% in June, about the same pace as in April and May, and for the quarter, production slowed considerably. Second-quarter output rose at an annual rate of 5.3%, down from a 7.8% pace in the first quarter.

## WHERE INVENTORIES ARE BUILDING UP



A drop-off in auto and truck production accounted for much of that slowdown, but even excluding motor vehicles, June output still increased only 0.2%, about half the pace of April and May. And operating rates in manufacturing slipped to 82.8% in June, from 82.9% in May, the second dip in a row.

The production data also show that the capital-spending boom remained firmly in place last quarter, and that sector should add further to second-half economic growth. Output of business equipment, excluding autos and trucks, rose 0.6% in June. The second-quarter annual rate was 11.2%, about as strong as the 12.3% pace of the first quarter.

## IMPORTS WIDEN THE TRADE DEFICIT

U.S. producers aren't the only ones adjusting to the consumer slowdown. It's a good bet that many of the goods now stacked in U.S. warehouses were made overseas. That should mitigate some of the negative side effects on the orders and output of U.S. manufacturers.

Another record level of imports caused a further deterioration in the U.S. trade deficit in May. The trade gap for all goods and services widened to \$9.2 billion in May, from \$8.5 billion in April. That's a sharp rise from March's \$6.9 billion. Imports rose 1.2%, to \$65.5 billion, while exports edged up just 0.2%, to \$56.3 billion, after dropping 3.3% in April.

For goods alone, the trade gap mushroomed to \$14.1 billion. That's up from April's \$13.3 billion, and it was the biggest deficit since October, 1987, said the Commerce Dept. (chart).

The trade deficit with Japan shrank by about \$1 billion in May, all of it coming from a big decline in imports. But for the first five months of 1994, imports from Japan grew by 9.3%, and the five-month trade deficit widened by \$2.4 billion compared with 1993.

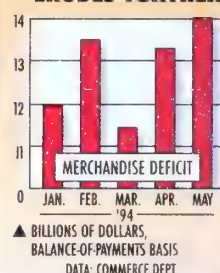
However, much of that deterioration reflects the surging yen, which increases the price of Japanese imports. Adjusted for prices, the erosion in real volume of trade with Japan looks far less worrisome.

The trade picture will probably improve in June. The influx of foreign World Cup fans boosted the U.S. travel surplus. Even so, foreign trade likely subtracted a bit from GDP growth in the second quarter.

Looking ahead, though, that drag may reverse itself. Just as American producers will have to cut back to avoid excess stockpiling, so, too, imports will probably slow to circumvent an inventory buildup of Mexican pottery, French wines, and Korean machine tools. Export growth, meanwhile, should look stronger by yearend as recoveries in Europe buoy demand there for American-made goods.

In the past, a swing in the trade gap hasn't been as volatile for the economy as the pitch from an inventory correction. But with today's growing globalization, especially in manufacturing, foreign trade has taken on greater importance in determining economic growth. And while slower inventory building may hamper output in the second half, better trade flows should help to power the expansion into 1995.

## FOREIGN TRADE ERODES FURTHER



## THE WEEK AHEAD

### EMPLOYMENT COSTS

*Tuesday, July 26, 8:30 a.m.*

Wage and benefit costs for private workers probably increased by 0.7% in the second quarter from the first, or about 3.1% from a year earlier. That's the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. The expected increase in employment costs would not be much different from the 3.2% yearly gain posted in the first quarter.

### CONSUMER CONFIDENCE

*Tuesday, July 26, 10 a.m.*

The Conference Board's index of consumer confidence likely dropped a bit

in July, to 91 from 92 in June. That's suggested by a small fall in the preliminary July reading on consumer sentiment released by the University of Michigan. A slip in confidence may be a clue that job growth slowed in July, after jumping by 379,000 in June.

### DURABLE GOODS ORDERS

*Wednesday, July 27, 8:30 a.m.*

New orders for durable goods probably increased by 0.5% in June, says the MMS survey. That would be the fourth straight advance in bookings, including a 1.1% gain in May. The string of increases in new orders suggests the backlog of unfilled orders rose in June, after a small 0.1% increase in May.

### GROSS DOMESTIC PRODUCT

*Friday, July 29, 8:30 a.m.*

The median MMS forecast expects that real GDP grew at a 3.8% annual rate in the second quarter, a bit higher than the 3.4% pace of the first period. However, the range is fairly wide, from a 1.3% blip to a 4.5% blast. Inventory accumulation and a construction rebound likely offset slower consumer spending and a wider trade deficit. The price deflator likely increased at a 2.7% annual rate, on par with the 2.6% gain in the first quarter. Commerce will also release revisions to the economy back to the first quarter of 1991, the start of the current expansion.

A car's past speaks volumes about its future. The more impressive the credentials, the better the likelihood it will perform its appointed tasks.

of comfort and luxury normally reserved for far more expensive cars.

Of course safety on the job is paramount. Which is why a passenger-side air bag<sup>††</sup> has been added for 1994. So now both driver and passenger can feel that additional measure of security. Naturally, safety credentials like side-door impact beams are built into every Camry, and available Anti-lock Brakes provide enhanced control under even the most challenging conditions.

A more powerful V6 engine is available,

*Built In America\*\**

Consider, then, the credentials of the Toyota Camry.

To borrow from the language of résumés, it comes highly recommended. *Automobile Magazine\** has called the XLE V6 "the best car built in America."<sup>\*\*\*</sup>

# If You Could Interview Your Car, What Would Its Résumé Look Like?

Built in America, by Americans.

In Georgetown, Kentucky, to be more precise.

Others have offered similar kind words.

J.D. Power and Associates has ranked

Camry among the Top Ten Models in Initial Quality for the last six years.<sup>†</sup>

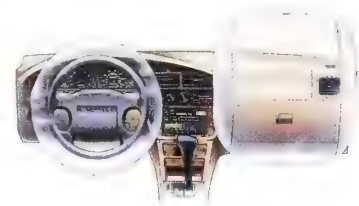
A distinction all its own.

As for on-the-job performance, Camry is known for working well with others. It not only has room for five adults, its interior amenities offer a level

with 188 horsepower, allowing you to work effortlessly through the demands of highway driving. Or, should you choose, simply put it all behind you.

May we suggest you pencil in a test drive soon? Call 1-800-GO-TOYOTA for a brochure and location of your nearest dealer.

You'll find the Toyota Camry even more impressive, one on one.



*Dual Air Bags<sup>††</sup>*



*Rave Reviews*

 **TOYOTA Camry**

*"I love what you do for me."*



Buckle Up! Do it for those who love you. \*Automobile Magazine, September 1992. \*\*Most Camrys are built in the U.S. †J.D. Power and Associates 1989-1994 Initial Quality Studies. ‡1994 study based on 31,960 consumer responses indicating owner-reported problems during the first 90 days of ownership. ††Always use your seatbelts. Driver- and passenger-side air bags are a Supplemental Restraint System (SRS). Shown with optional equipment. ©1994 Toyota Motor Sales, U.S.A., Inc.



AUGUST 1, 1994

**W**hen Microsoft Corp. agreed on July 15 to sign off on a consent decree negotiated with the Justice Dept., Chairman William H. Gates III got out from under an antitrust cloud that has followed his software maker for more than four years—without casting much of a shadow. The deal ends a U.S. investigation into Microsoft's allegedly anticompetitive practices and closes a monopoly probe by the European Commission. And because it focuses on just three narrow issues, the settlement will do little if anything to cramp Gates's style.

So, having wrapped up his business in Washington and Brussels, Gates is focusing on Chicago. Not the Windy City. Chicago is the code name for a hugely ambitious, simultaneous upgrade of the two products that give Microsoft its extraordinary powers—the MS-DOS operating system and the Windows "user interface." The new package, also known as Windows 4.0, melds MS-DOS with Windows into a single program that will do far more to shape the destiny of Microsoft and the computer industry than anything the trustbusters could cook up.

Even now, six months or possibly a year before it ships, Chicago is making its presence felt. Both hardware and software makers say the program, which boosts Windows'

### WINNERS

**MICROSOFT** It stands to make \$1.5 billion over two years selling Windows upgrades and should solidify its dominant position in desktop operating systems. Microsoft is also likely to lead the market with applications programs for Chicago.

**PC MAKERS** The new software could boost sales of PCs—although delays in Chicago may slow hardware upgrades among business users.

### LOSERS

**NOVELL** It plans to ship a new set of office programs for Windows 3.1 (from its WordPerfect subsidiary) late this year or early next. By then, buyers may be shopping for Chicago applications.

**APPLE** Microsoft is closing the "ease-of-use" gap between Windows and Macintosh—despite Apple's upcoming System 7.5 software.

## CHICAGO COULD MOW DOWN SOME RIVALS WHILE AIDING OTHERS

"user friendliness" and for the first time takes full advantage of the powers of speedy microprocessors, will spur new demand. "We're very bullish on Chicago," says Gian Carlo Bisone, Compaq Computer Corp.'s vice-president for marketing for North America.

Not so fast. Because Chicago is such a major leap, potentially affecting 120 million MS-DOS customers (including 55 million Windows users), the initial effect is bound to be confusion. Buyers may pause to weigh Chicago's benefits vs.

the costs of new hardware, applications software, and training. "We have an entire year where the marketplace will be stalled," predicts Steven Hochschild, director of developer relations at Lotus Development Corp.

Who gets hurt? Potentially, the entire computer industry—including Microsoft. If Chicago's shipment date slips

into 1995, a possibility Gates acknowledges, Microsoft could face an earnings slowdown. On the eve of Microsoft's July 20 announcement of \$1.15 billion in 1994 profits and \$4.65 billion in revenues, analysts were busy paring back projections for 1995. Their worry: some \$1 billion in Chicago revenue could be

postponed until fiscal 1996.

**COMPLICATIONS.** That's nothing next to the havoc Chicago could wreak on Lotus and Novell Inc., Microsoft's chief rivals in applications software. Microsoft got a jump on the competition with word-processing and spreadsheet packages for Windows and has been devouring mar-



# NEXT STOP, CHICAGO

**ANTITRUST TRAVAILS BEHIND HIM, BILL GATES  
IN FOCUS ON MICROSOFT'S BLOCKBUSTER PROGRAM**

share ever since. In suites—bundles of office applications—it has roughly 80% of the Windows market. Indeed, Lotus' stock fell 15% on July 19, to close at \$112, after it reported a 36% decline in operating profits to \$9.7 million—thanks to tough competition from Microsoft. Having lost out in the first Windows market, Lotus and Novell are eager to do better with Chicago. But Chicago's postponement from its original target of early 1994 complicates their plans: Instead of creating Chicago products this year, they have had to create interim updates of Windows applications to keep Lotus' SmartSuite hits the stores in August. Novell's new offering—mainly

programs from newly acquired WordPerfect Corp.—isn't due until yearend.

That could be bad timing. If Chicago arrives by the end of 1994 as promised, sales of those programs could fizzle as buyers start looking for packages that take advantage of Chicago's powers. The switch will favor Microsoft, which is bound to have applications ready sooner than rivals. On the other hand, if Chicago slips to mid-1995—the Novell and Lotus releases have a better chance.

At least one hardware maker—Apple Computer Inc.—is praying for delays in Microsoft's blockbuster. Windows clearly aped the Macintosh (or so Apple claims in a patent-infringement suit) but

never really matched its ease of use. Chicago comes closer. So close that Apple is rushing an update of the Mac software. "Microsoft is getting closer, but we can make the next leap," says Guerino De Luca, an Apple vice-president.

**HIGH-END MACHINES.** Most PC makers would prefer to see Chicago now. While they say their business remains strong—despite worries of a summer slowdown—delays in Chicago could hurt. Microsoft's new program will work best on high-end PCs such as models using Intel Corp.'s Pentium chips and large amounts of memory, and buyers are likely to trade up for Chicago—the way they bought faster PCs to run Windows. "The Windows upgrade cycle is petering out," says Eugene G. Glazer, a Dean Witter Reynolds Inc. analyst. "What you really need is the next generation—Chicago."

## UNDETERMINED

**IBM** It could lose the slowly building momentum of its OS/2 operating system. But IBM could pick up share if Chicago stumbles.

**LOTUS** The later Chicago ships, the better the new version of its SmartSuite office programs for Windows will do. But Microsoft is sure to beat Lotus to market with Chicago applications.

The combination of the consent decree and a late—or buggy—Chicago gives competing operating systems a shot. The main issue addressed in the consent decree was Microsoft's "per processor" licenses, which rivals said shut them out. Under that plan, forbidden under the Justice Dept. settlement, high-volume PC makers paid Microsoft an MS-DOS royalty for every machine they shipped, whether it had the software or not. The consent decree also outlaws Microsoft's practice of locking up customers with lengthy contracts.

In theory, life just became easier for Windows wannabes—IBM's OS/2, Sun Microsystems' Solaris, and Novell DOS. In reality, nothing has changed. Some 80% of all PCs come with Windows, and buyers aren't complaining. "If customers ask for alternatives, we'll make them available," says Sue L. King, director of software market development at Dell Computer Corp. "But I don't anticipate big change."

Gates, however, predicts a change—accelerated Windows sales. "My forecast is that sales of OS/2 will decline," he says, because of competition from Chicago. IBM won't comment on the consent decree, but Robert O'Malley, a marketing



vice-president for IBM PC Co., says Chicago could "fuel renewed interest in OS/2" because it highlights the need for a high-performance operating system.

If makers of operating systems have only a glimmer of hope, other software makers have next to none. With Chicago, Microsoft steps up its effort to build in more features that used to be sold separately—such as electronic-mail soft-

ware. When Gates described Chicago's features to the Electronic Mail Assn., the mood was somber. "It was like a wake," says Hochschild of Lotus, which sells cc:Mail. "A lot of people believe that when Chicago ships, the messaging industry as we know it is gone."

The only thing that can halt the Microsoft juggernaut now, it seems, is the company's own missteps. Don't count on

many of those. Prerelease "beta" versions are getting raves. "When the dust settles, Microsoft will have a higher percentage of systems than in the past," says Gordon E. Eubanks Jr., CEO of software maker Symantec Corp. And lighter legal bill, to boot.

*By Amy Cortese in New York with Kathy Rebello in San Francisco, Peter Burrows in Dallas, and bureau reports*

Commentary/by Stephen H. Wildstrom

## IT LOOKS AND FEELS LIKE A WINNER

**F**or months now, Microsoft Corp. has been putting inexperienced computer users in front of machines and turning them loose on Chicago, its new version of the Windows operating software. If enough of these guinea pigs find a feature obscure or hard to use, it is redesigned or discarded.

Such testing isn't new, of course. But by focusing so strongly on usability, Microsoft has set a new standard for software development. The payoff: Chicago looks like a home run. And its success could assure the software giant a dominant role in PC operating systems for years to come.

Chicago's emphasis on convenience is everywhere in the preliminary version, now in the hands of some 15,000 reviewers. The "user interface" borrows the best tricks from Apple's System 7 for the Macintosh and IBM's OS/2, then adds a few wrinkles of its own.

**AUTOMATION.** A new approach to file management, for instance, makes it much easier to retrieve a document—even if you can't remember exactly what it's called, or where you put it. The eight-character limit on file names, a frustration to users since the birth of the PC, is gone. A "task bar" across the bottom of the screen tells you what programs are running and lets you switch from one to another without using obscure combinations of keys. And frequently used programs can be set up so that they are automatically pulled up and ready to launch when the PC is turned on.

Changes beneath the surface should make Chicago even easier to use than previous PC operating environments. Windows has been crippled from birth by the limitations designed into MS-DOS, which provides its underlying power. Windows, for example, has never been able to use a computer's random-access memory effectively because MS-DOS was designed on the assump-

tion installed and to reconfigure themselves automatically. No longer will you have to think about mysteries such as "IRQs" and "I/O port addresses" to get a Soundblaster card or a CD-ROM drive working.

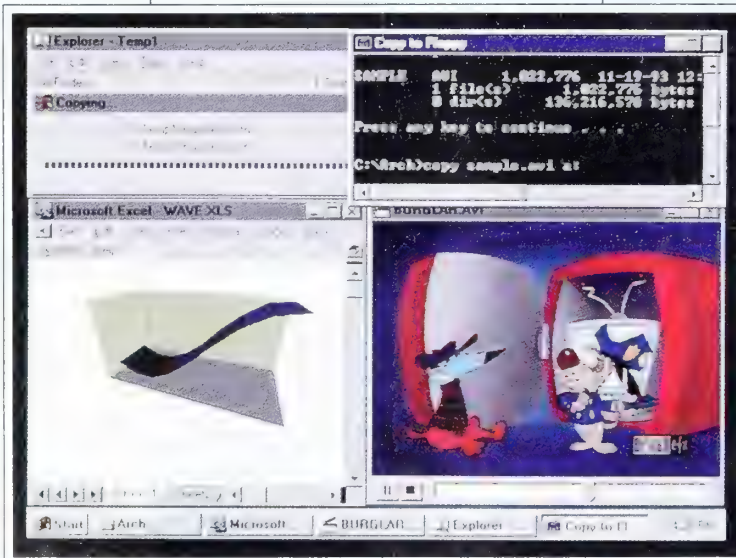
Will this be enough to make computers simple enough for the rest of us, particularly the 70% or so of American homes that remain computerless? That depends in large part on how Microsoft and its rivals in the software industry respond.

**NO EXCUSES.** For Microsoft, the top priority must be to make sure that Chicago is free of major bugs—even if that means delaying delivery into next year. Certainly, the current test version is far from ready. I needed help from a systems administrator—and several Microsoft technicians—to get a computer loaded with Chicago to work on a Novell NetWare network.

Microsoft and other software publishers should also avoid using Chicago as an excuse to build bigger programs bloated with rarely used

features. Unlike Windows 3.0, whose 1990 introduction pushed buyers into a new generation of hardware, Chicago should run happily on any computer that handles Windows 3.1 well. But if obese programs are developed that require hardware upgrades, the computer industry will needlessly create a bunch of unhappy users. And why turn a home run into a foul ball?

*Wildstrom writes BUSINESS WEEK's Technology & You column.*



Chicago's interface borrows some tricks from Apple and IBM—and adds a few of its own

tion that no machine would ever contain more than 1 million characters' (1 megabyte) worth of memory. This causes Windows programs to report regularly that they are out of memory—or worse, to crash—even on machines with a hefty 16 megabytes of RAM. Chicago finally dumps the arbitrary limits.

Chicago—along with a "plug and play" hardware standard co-developed by Intel Corp.—also allows computers to recognize accessories as they are



# FINANCIAL TRIAGE AT WHITTLE

to salvage his company, Chris Whittle wants to spin it off piece by piece

Nothing better symbolizes the ambitions of media entrepreneur Christopher Whittle than the rawling Georgian-style headquarters built for Whittle Communications LP in Knoxville, Tenn., three years ago. Nowadays, the \$55 million edifice also symbolizes Whittle's woes.

Successive rounds of layoffs at the media and marketing companies have left the building half empty, according to current and former employees. Since 1992, Whittle Communications has reduced its workforce from 1,000 to 700. Whittle's office is among the empty ones: The charismatic founder is on the road most of the time—searching for investors to keep his businesses afloat.

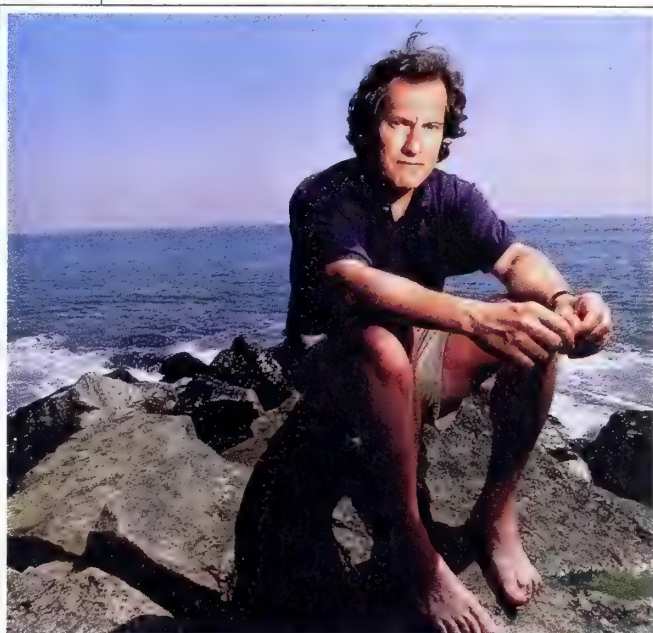
Whittle acknowledges he used the same strategy last year but found no buyers. He now says he erred by lumping all his assets together and making one blockbuster investment: "We were out in the market trying to raise boxcars of dollars," explains Whittle. This time, he is chopping up the company to offer relatively small-size equity stakes in specific businesses, such as Channel One, a profitable satellite service for classrooms, and the Edison Project, his controversial plan to build a chain of for-profit schools.

**SENCHEMENTED.** Whittle may have lowered his sights. But company insiders say he needs to deal even more than before. They say the Edison Project requires a cash infusion to continue through 1995. And one of Whittle's other major ventures, Medical News Network, an on-line service for doctors, is being retooled to account for health-care reform. "Everything is starting to lapse in on him," says a Wall Street executive who has heard the pitch that Whittle's banker, Dillon, Read & Co., is looking for Edison.

So murky is Whittle's future that some of his employees fear the company will file for bankruptcy if it doesn't find investors by mid-August. Whittle refuses to

comment on the rumors. But privately, two senior Whittle executives flatly deny that the company has any plans to file for Chapter 11 protection—even without new investors. Although revenues at the privately held company have dropped sharply from roughly \$230 million in fiscal 1993, Whittle has barely \$100 million in bank

**WHITTLE: LOOKING UNDER EVERY ROCK FOR INVESTORS**



## WOBBLY WHITTLE NEEDS HELP

*Status of major Whittle Communications operations*

**CHANNEL ONE** Whittle is trying to sell more than 50% of the classroom video service for \$250 million to a fund controlled by Goldman Sachs.

**EDISON PROJECT** For-profit schools venture faces a cash crunch after \$40 million in startup costs and no revenue. Seeking a \$50 million infusion.

**MEDICAL NEWS NETWORK** On-line service for doctors is being retooled because of health-care reform. The unit is talking to three potential equity investors.

debt, one of the executives notes. And observers say Channel One is successfully renewing sponsors for its mix of current events and commercials.

Indeed, executives close to Whittle say he is close to a deal to sell about 57% of the service to GS Capital Partners, an investment fund managed by Goldman, Sachs & Co. The deal, worth roughly \$250 million, would more than

offset the \$25 million cost of closing down Special Reports, a failed TV and magazine service for doctors' offices. And it would reduce the holdings of Whittle's disenchanted partners. Time Warner Inc. and Dutch consumer-electronics giant Philips each own 33.4%, while Britain's Associated Newspapers Holdings Ltd. has 22.3%. Time Warner may write off the rest of its investment, says one Whittle insider.

A Channel One deal would also allow Whittle to seek investors for what friends say is his pet project—Edison. Although it has been radically scaled back, Whittle still hopes to start running schools in the fall of 1995. So far, he and Edison CEO Benno C. Schmidt Jr. have signed up 11 public schools in Massachusetts, Texas, Kansas, Colorado, and Michigan.

But providing the service to just those schools could require \$50 million. And having spent \$40 million already, Edison now has only enough funds to carry it through the remainder of 1994. While Whittle has been fairly successful in wooing school districts, he still faces longer-term hurdles, including test results showing that for-profit schools don't necessarily produce better students.

**EXHAUSTING ROUND.** Salvaging Whittle's newest venture, Medical News Network, may be the hardest task. The company says it successfully tested the service—which transmits information and ads about drugs and medical treatments—with 5,000 doctors. And Whittle tentatively signed up three companies to buy ads worth \$147 million. But then came the Clinton health-reform bill, which has shifted the focus from individual doctors to large health-maintenance organizations. Now, Whittle must rethink how his service is distributed. To pay for this overhaul, he is talking to three companies—among them, Reuters Holdings PLC—about an equity stake.

For Whittle, it all adds up to an exhausting round of sales pitches and negotiations. On July 19, for example, he was in London for meetings with both his current partners and prospective investors. Executives who know this inveterate salesman figure he'll pull off two of the three deals. If he doesn't, the wind soon may be whistling through Whittle's headquarters.

*By Mark Landler in New York*



## A SURPRISINGLY STRONG SHOWING—SO FAR

A sneak peek at second-quarter profits finds a robust 22% increase

**T**he second quarter wasn't pretty: The Federal Reserve raised rates twice, the Dow Jones industrial average rose 179 points—then fell 190—and the dollar took a dive. So the news from Corporate America comes as something of a relief. According to BUSINESS WEEK's flash report on second-quarter results, profits rose a robust 22% on a higher-than-usual 12% leap in sales. But don't count on double-digit increases in the second half. Many analysts expect a slower U. S. economy to crimp sales and earnings growth for the rest of 1994.

—Frederick F. Jespersen



## KICKING THE REBATE HABIT

The Big Three finally are making cars that don't need costly incentives

**R**uss Darrow has been watching new Plymouth Neons, Dodge Intrepids, and Jeep Grand Cherokees zoom out of his Milwaukee-area dealerships lately. That's good news for Darrow—and even better news for Chrysler Corp. Because for the first time in years, Darrow and other dealers are moving cars without cash-back offers or other costly marketing incentives. A year ago, Chrysler had to slap \$1,000

rebates on the Plymouth Sundance to move the aging subcompact off dealer lots. Not so with the snazzy Neon that replaced it. "The hot-selling new lines don't need incentives," Darrow says.

Chrysler isn't alone. Nearly all of the auto makers—and especially the Big Three domestic manufacturers who got consumers hooked on rebates in the past recession—are seeing big payoffs as they wean buyers away from cash-back offers and leasing subsidies (chart). That's a big reason why Detroit's earnings are cruising. On July 14, Chrysler posted second-quarter net earnings of \$956 million, up 40% from the previous year, on sales of \$13 billion. The company's retail incentives averaged only \$610 per vehicle during the period, down from \$1,050 a year earlier.

When Ford Motor Co. releases quarterly earnings on July 27, Morgan Stan-

ley & Co. analyst Scott F. Merlis is expecting \$1.5 billion to \$1.7 billion in profits, up from \$775 million the year before. Ford has slashed its incentive costs by nearly one-half in the past year, in part by dropping rebates on nearly half of its 22-model lineup. And Merlis anticipates that General Motors Corp. will report \$1.6 billion in earnings on July 28 compared with \$889 million in 1993's second quarter. Analysts even expect GM's troubled North American auto operations to be back in the black.

**NEW GAME IN TOWN.** The Big Three's robust profits also owe a lot to cost-cutting, strong sales, and a high-octane mix of lucrative trucks and upscale, option-loaded cars that boost margins. Chrysler Chief Financial Officer Gary C. Valade figures that such sales accounted for more than \$100 million of the company's year-over-year profit swing.

Current qtr. sales  
(Millions)

### INDUSTRIALS 96,079.9

|                            |          |
|----------------------------|----------|
| ABBOTT LABORATORIES        | 2,204.0  |
| ALCOA                      | 2,479.3  |
| AMERICAN CYANAMID          | 1,499.8  |
| ARMSTRONG WORLD INDUSTRIES | 689.3    |
| BOISE CASCADE              | 1,075.4  |
| BRISTOL-MYERS SQUIBB       | 2,970.3  |
| CHRYSLER                   | 13,082.0 |
| COCA-COLA                  | 4,342.0  |
| COOPER TIRE & RUBBER       | 329.3    |
| CORNING                    | 1,109.2  |
| CPC INTERNATIONAL          | 1,856.3  |
| DOLE FOOD                  | 986.9    |
| GENERAL ELECTRIC           | 16,196.0 |
| INTERNATIONAL PAPER        | 3,600.0  |
| JOHNSON & JOHNSON          | 3,916.0  |
| LILLY (ELI)                | 1,678.5  |
| LYONDELL PETROCHEMICAL     | 900.0    |
| MCDONNELL DOUGLAS          | 3,250.0  |
| MERCK                      | 3,792.0  |
| PACCAR                     | 1,070.8  |
| PEPSICO                    | 6,557.0  |
| PHILIP MORRIS              | 13,532.0 |
| REYNOLDS METALS            | 1,459.8  |
| RUBBERMAID                 | 531.1    |
| SHERWIN-WILLIAMS           | 880.5    |
| TRW                        | 2,317.0  |
| UNION CARBIDE              | 1,177.0  |
| WEYERHAEUSER               | 2,598.4  |

### SERVICES 55,716.4

|                           |         |
|---------------------------|---------|
| AMR                       | 4,101.0 |
| BANKAMERICA               | NA      |
| BARNETT BANKS             | NA      |
| BLOCKBUSTER ENTERTAINMENT | 676.3   |
| CBS                       | 882.6   |
| CHASE MANHATTAN           | NA      |
| CHEMICAL BANKING          | NA      |
| CITICORP                  | NA      |
| DOW JONES                 | 524.2   |
| FEDERAL EXPRESS†          | 2,264.8 |
| FIRST CHICAGO             | NA      |
| FOOD LION                 | 1,821.9 |
| HOME SHOPPING NETWORK     | 274.0   |
| HUMANA                    | 897.0   |
| ITT                       | 6,400.0 |



| % chg.      | Est. EPS<br>(5/12) | Reported<br>EPS | Diff.        |
|-------------|--------------------|-----------------|--------------|
| <b>+32</b>  | <b>0.83</b>        | <b>0.87</b>     | <b>+0.04</b> |
| <b>+9</b>   | 0.47               | 0.46            | -0.01        |
| <b>+29</b>  | 0.28               | 0.50            | +0.22        |
| <b>NM</b>   | 1.65               | 2.06            | +0.41        |
| <b>+67</b>  | 0.99               | 1.31            | +0.32        |
| <b>NM</b>   | -1.13              | -0.86           | +0.27        |
| <b>+10</b>  | 1.05               | 1.07            | +0.02        |
| <b>+40</b>  | 2.21               | 2.61            | +0.40        |
| <b>+12</b>  | 0.61               | 0.59            | -0.02        |
| <b>+14</b>  | 0.35               | 0.33            | -0.02        |
| <b>+24</b>  | 0.51               | 0.54            | +0.03        |
| <b>NM</b>   | 0.82               | 0.81*           | -0.01        |
| <b>-10</b>  | 0.63               | 0.60            | -0.03        |
| <b>+132</b> | 0.88               | 0.89            | +0.01        |
| <b>+13</b>  | 0.73               | 0.70            | -0.03        |
| <b>+13</b>  | 0.84               | 0.86            | +0.02        |
| <b>0</b>    | 1.17               | 1.20            | +0.03        |
| <b>NM</b>   | 0.35               | 0.40            | +0.05        |
| <b>+22</b>  | 3.38               | 3.50            | +0.12        |
| <b>+10</b>  | 0.61               | 0.61            | —            |
| <b>+54</b>  | 1.21               | 1.30            | +0.09        |
| <b>+5</b>   | 0.61               | 0.55            | -0.06        |
| <b>+18</b>  | 1.39               | 1.42            | +0.03        |
| <b>NM</b>   | 0.21               | 0.05            | -0.16        |
| <b>+11</b>  | 0.35               | 0.35            | —            |
| <b>+14</b>  | 0.76               | 0.80            | +0.04        |
| <b>+57</b>  | 1.13               | 1.33            | +0.20        |
| <b>+78</b>  | 0.41               | 0.44            | +0.03        |
| <b>-29</b>  | 0.74               | 0.62            | -0.12        |
| <b>+7</b>   | <b>0.88</b>        | <b>1.03</b>     | <b>+0.15</b> |
| <b>+226</b> | 1.60               | 1.77            | +0.17        |
| <b>+8</b>   | 1.29               | 1.33            | +0.04        |
| <b>+16</b>  | 1.15               | 1.19            | +0.04        |
| <b>+31</b>  | 0.28               | 0.25            | -0.03        |
| <b>+2</b>   | 6.75               | 6.84            | +0.09        |
| <b>+32</b>  | 1.25               | 1.46            | +0.21        |
| <b>-6</b>   | 1.24               | 1.28            | +0.04        |
| <b>+97</b>  | 1.23               | 1.83            | +0.60        |
| <b>+16</b>  | 0.47               | 0.46            | -0.01        |
| <b>+45</b>  | 1.29               | 1.43            | +0.14        |
| <b>0</b>    | 1.46               | 1.71            | +0.25        |
| <b>+13</b>  | 0.07               | 0.07            | —            |
| <b>-5</b>   | 0.12               | 0.02            | -0.10        |
| <b>+184</b> | 0.20               | 0.33            | +0.13        |
| <b>-3</b>   | 1.90               | 2.11            | +0.21        |

|                                     | Current qtr. sales<br>(Millions) | % chg.     | Qtr. profits<br>(Millions) | % chg.      | Est. EPS<br>(5/12) | Reported<br>EPS | Diff.        |
|-------------------------------------|----------------------------------|------------|----------------------------|-------------|--------------------|-----------------|--------------|
| <b>MARRIOTT INTERNATIONAL</b>       | 1,982.0                          | +16        | 48.0                       | <b>+30</b>  | 0.36               | 0.36            | —            |
| <b>McGRAW-HILL</b>                  | 648.3                            | +32        | 48.0                       | <b>+11</b>  | 0.94               | 0.97            | +0.03        |
| <b>MERRILL LYNCH</b>                | 4,480.3                          | +13        | 251.8                      | <b>-27</b>  | 1.41               | 1.18            | -0.23        |
| <b>MORGAN (J. P.)</b>               | NA                               | NA         | 350.0                      | <b>-19</b>  | 1.75               | 1.73            | -0.02        |
| <b>NATIONSBANK</b>                  | NA                               | NA         | 437.0                      | <b>+43</b>  | 1.48               | 1.58            | +0.10        |
| <b>OFFICE DEPOT</b>                 | 905.2                            | +59        | 20.0                       | <b>+72</b>  | 0.11               | 0.13            | +0.02        |
| <b>ROADWAY SERVICES</b>             | 930.2                            | -1         | -21.7                      | <b>NM</b>   | 0.42               | 0.41*           | -0.01        |
| <b>SAFeway</b>                      | 3,612.7                          | +2         | 58.9                       | <b>+64</b>  | 0.40               | 0.48            | +0.08        |
| <b>SANTE FE PACIFIC</b>             | 658.2                            | +8         | 48.4                       | <b>+72</b>  | 0.27               | 0.25            | -0.02        |
| <b>SEARS, ROEBUCK</b>               | 13,007.8                         | +7         | 503.4                      | <b>-54</b>  | 1.21               | 1.27            | +0.06        |
| <b>TIME WARNER</b>                  | 1,667.0                          | +6         | -20.0                      | <b>NM</b>   | -0.07              | -0.06           | +0.01        |
| <b>TRAVELERS</b>                    | 4,601.4                          | +258       | 320.5                      | <b>+72</b>  | 1.01               | 0.93            | -0.08        |
| <b>UAL</b>                          | 3,502.0                          | +6         | 55.0                       | <b>+139</b> | 2.61               | 1.89            | -0.72        |
| <b>USAIR</b>                        | 1,879.6                          | +4         | 13.8                       | <b>+137</b> | -1.13              | -0.09           | +1.04        |
| <b>WELLS FARGO</b>                  | NA                               | NA         | 206.0                      | <b>+38</b>  | 3.55               | 3.57            | +0.02        |
| <b>TECHNOLOGY</b>                   | <b>22,429.2</b>                  | <b>-24</b> | <b>2,111.0</b>             | <b>+37</b>  | <b>0.78</b>        | <b>0.82</b>     | <b>+0.04</b> |
| <b>ADVANCED MICRO DEVICES</b>       | 533.3                            | +30        | 93.2                       | <b>+45</b>  | 0.85               | 0.93            | +0.08        |
| <b>AMGEN</b>                        | 414.7                            | +21        | 107.5                      | <b>+7</b>   | 0.72               | 0.77            | +0.05        |
| <b>COMPAQ COMPUTER</b>              | 2,499.0                          | +53        | 210.0                      | <b>+106</b> | 0.74               | 0.78            | +0.04        |
| <b>CONNER PERIPHERALS</b>           | 650.1                            | +33        | 31.5                       | <b>NM</b>   | 0.46               | 0.60            | +0.14        |
| <b>EMC</b>                          | 308.1                            | +72        | 54.6                       | <b>+103</b> | 0.23               | 0.26            | +0.03        |
| <b>GENENTECH</b>                    | 194.9                            | +15        | 33.4                       | <b>+221</b> | 0.23               | 0.28            | +0.05        |
| <b>GENERAL INSTRUMENT</b>           | 508.8                            | +63        | 52.0                       | <b>+324</b> | 0.67               | 0.84            | +0.17        |
| <b>HONEYWELL</b>                    | 1,463.8                          | +1         | 56.9                       | <b>-20</b>  | 0.45               | 0.44            | -0.01        |
| <b>INTEL</b>                        | 2,770.0                          | +30        | 640.0                      | <b>+12</b>  | 1.46               | 1.46            | —            |
| <b>LOTUS DEVELOPMENT</b>            | 224.0                            | -5         | 9.7                        | <b>NM</b>   | 0.49               | 0.35*           | -0.14        |
| <b>MOTOROLA</b>                     | 5,439.0                          | +38        | 367.0                      | <b>+64</b>  | 0.58               | 0.66            | +0.08        |
| <b>POLAROID</b>                     | 587.3                            | +3         | 29.2                       | <b>+4</b>   | 0.55               | 0.62            | +0.07        |
| <b>RAYTHEON</b>                     | 2,527.0                          | +12        | 192.2                      | <b>+7</b>   | 1.46               | 1.43            | -0.03        |
| <b>TEXAS INSTRUMENTS</b>            | 2,510.0                          | +19        | 184.0                      | <b>+64</b>  | 1.81               | 1.93            | +0.12        |
| <b>UNISYS</b>                       | 1,799.2                          | -7         | 49.9                       | <b>-52</b>  | 0.32               | 0.12            | -0.20        |
| <b>UTILITIES &amp; TELECOM</b>      | <b>27,905.8</b>                  | <b>+6</b>  | <b>2,950.1</b>             | <b>+20</b>  | <b>0.59</b>        | <b>0.66</b>     | <b>+0.07</b> |
| <b>AMERICAN ELECTRIC POWER</b>      | 1,349.0                          | +11        | 117.0                      | <b>+16</b>  | 0.49               | 0.56            | +0.07        |
| <b>AMERITECH</b>                    | 3,146.4                          | +7         | 446.6                      | <b>+15</b>  | 0.73               | 0.81            | +0.08        |
| <b>BALTIMORE GAS &amp; ELECTRIC</b> | 630.4                            | +12        | 66.7                       | <b>+19</b>  | 0.31               | 0.39            | +0.08        |
| <b>BELL ATLANTIC</b>                | 3,394.1                          | +5         | 415.4                      | <b>+8</b>   | 0.91               | 0.95            | +0.04        |
| <b>DOMINION RESOURCES</b>           | 1,109.7                          | +10        | 146.2                      | <b>+29</b>  | 0.64               | 0.80            | +0.16        |
| <b>ENRON</b>                        | 1,897.8                          | 0          | 75.6                       | <b>+24</b>  | 0.27               | 0.30            | +0.03        |
| <b>GTE</b>                          | 4,955.0                          | +1         | 595.0                      | <b>+36</b>  | 0.55               | 0.62            | +0.07        |
| <b>MCI COMMUNICATIONS</b>           | 3,309.0                          | +13        | 215.0                      | <b>+21</b>  | 0.36               | 0.37            | +0.01        |
| <b>PACIFIC TELESIS</b>              | 2,256.0                          | -3         | 278.0                      | <b>-2</b>   | 0.69               | 0.65            | -0.04        |
| <b>SPRINT</b>                       | 3,150.4                          | +12        | 219.6                      | <b>+33</b>  | 0.58               | 0.63            | +0.05        |
| <b>US WEST</b>                      | 2,708.0                          | +7         | 375.0                      | <b>+29</b>  | 0.72               | 0.83            | +0.11        |

NA = not available

NM = not meaningful

† Fourth-quarter results

\* EPS adjusted for special items

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF MCGRAW-HILL INC. EARNINGS ESTIMATE DATA PROVIDED BY I/B/E/S INC., NEW YORK, NY. I/B/E/S IS A REGISTERED TRADEMARK OF I/B/E/S INC.

Still, the steady decline in incentives presents not only profit opportunity it also a marketing victory for Detroit. Domestic auto makers have been trying to break the incentive habit for several years. But consumers had learned to play the game. When a car company backed off on incentives, customers just postponed buying until the manufacturer was forced to bring back rebates.

It didn't help that Detroit is pushing a lot of outmoded cars. To move the metal, car makers had to resort to big giveaways. "We were trying to sell the deal more than the product, quite frankly," says Chrysler's Valade. "Now, we're fortunate to be making vehicles that people want to drive on their own."

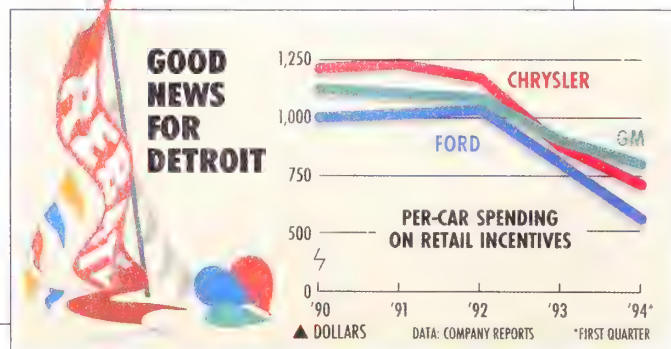
The stronger economy helps a lot, too. Car companies don't have to try so hard to lure customers into the showrooms. And these days, leasing is replacing the rebate as consumers' gimmick of choice. Leases often involve marketing subsidies, too. But those subsidies are also coming down. And Ford, the most aggressive player in leasing, says its subsidies are running at about

the same per-vehicle levels as its cash rebates.

Givebacks are hardly history. Chrysler slapped a \$500 rebate on its popular minivans last winter to keep them competitive with Ford's new Windstar. And some hefty incentives never went away, such as the \$2,000 rebate on the Chevrolet Corvette.

But for the customers flocking to Detroit's new offerings, such wheeling and dealing is beside the point. "A rebate is not the reason they're here," says Darrow. The trick will be to maintain Detroit's profit margins when sales slow down. And that means making sure customers don't get hooked on rebates all over again.

By Kathleen Kerwin in Detroit





### IT'S RAYTHEON VS. THOMSON

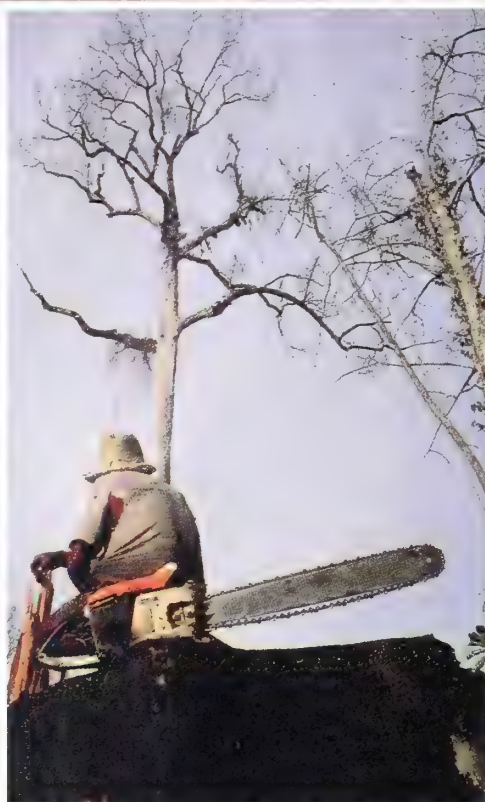
The prize: A \$1.2 billion deal to build a "rain-forest monitoring system"

It may set the standard for global defense conversion. In late July, Brazil is expected to award a \$1.2 billion contract for a system designed to guide aircraft through Brazilian skies—and help preserve the Amazon rain forest. Relying on an elaborate network of satellites, airplanes, ground sensors, and computers, the system would monitor rain-forest deforestation, pollution, Indian migration, climate changes, and drug-trafficking in an area the size of the Western U.S.

At stake: key jobs at two of the world's premier defense giants—and the Clinton Administration's reputation for export promotion. In the running are Thomson CSF, which is 40%-owned by the French government, and Raytheon Co., the fifth-largest defense contractor in the U.S. Both have lined up government heavyweights to intercede on their behalf. With Thomson gear already entrenched in Brazil's air-traffic-control system, Raytheon is backing its bid with its technological expertise in missiles. The company says a win would mean 1,100 jobs in the U.S. during the next two decades.

**FULL COURT PRESS.** With so much at stake, it's no surprise the deal has become a highly visible slugfest. Senior officials from France and the U.S. have been lobbying hard. In late June, Commerce Secretary Ronald H. Brown, who has made export promotion a top priority, met with Brazilian President Itamar Franco to advance Raytheon's case. Raytheon Chairman Dennis J. Picard separately met with Brazilian officials. A day earlier, Brazilian officials met with French Foreign Trade Minister Gerard Longuet and Bank of France Governor Jean-Claude Trichet.

Anticipating a heavily subsidized bid from government-backed Thomson, the Export-Import Bank of the U.S. has prepared what a spokesman says is "by far the largest subsidy Ex-Im has ever made." It would also be the



**RAYTHEON SAYS THE BRAZILIAN PROJECT, WHICH INCLUDES SATELLITES, AIRPLANES, GROUND SENSORS, AND COMPUTERS, WOULD BE WORTH 1,100 JOBS OVER THE NEXT 20 YEARS**

first time in five years that the agency has lent money to a state-backed Brazilian corporation, a spokesman says. Neither Ex-Im Bank nor Raytheon would disclose terms of the U.S. proposal. But Brown said of the U.S.'s financing package vs. France's: "We intend not only to match it but to surpass it."

Both companies could use the business—but none more than Raytheon. Thomson CSF is already the most profitable division of Thomson, one of France's largest conglomerates. After several years in the doldrums, export orders for its military equipment have begun rising. But it, too, faces shrinking French government spending on defense. "Winning the Brazil contract would reinforce Thomson CSF's so far successful restructuring efforts to cope with sinking defense budgets," says a Thomson spokesman.

Raytheon's government defense contracts, on the other hand, have fallen by a total of almost \$1 billion since 1990, and the company has been cutting jobs at a rate of more than 300 a month since then. In April, it lost a key contract: The government selected Loral Corp. to make the warhead for the next generation of

jet subcontractor on Motorola Inc.'s multibillion-dollar Iridium project to build a global satellite phone network. And it's developing electronic controls for high-speed trains for Amtrak.

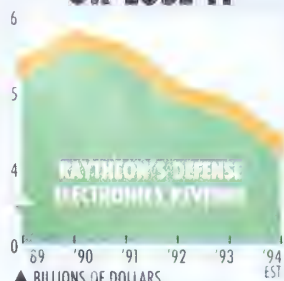
Indeed, while the Brazil project would be Raytheon's biggest defense conversion project, it would not rank among Raytheon's top 10 contracts. Nor would it have any immediate impact on its bottom line, says Prudential's Reich. That's because the contract is spread out over 20 years and requires that a large (though undisclosed) percentage of production to take place in Brazil.

This head-to-head battle may fizzle. One Brazilian official says the contract could end up being divided between the two companies. There's also the possibility that even showcase technology might not solve Brazil's problems with deforestation and mining. Says Environmental Defense Fund Senior Scientist Stephan Schwartzman: "The Brazilian government already knows a lot about illegal mining and deforestation but they haven't acted. Will they change?"

Raytheon and Thomson can't answer that. But they would both like to give Brazil the chance to show they're serious about the environment.

*By Geoffrey Smith in Boston, with Amy Borrus in Washington and Bill Hinchberger in São Paulo*

### CONVERT IT OR LOSE IT



DATA: COMPANY REPORTS, PRUDENTIAL SECURITIES INC.





JORDAN AT THE PITTSBURGH GROUP W STATION: HE'S PUMPING \$250 MILLION INTO TV

## TURNING THE LIGHT ON AT WESTINGHOUSE

With income sheltered from taxes, CEO Jordan goes on a shopping spree

**M**aybe Westinghouse Chairman Michael H. Jordan, a former chief financial officer at PepsiCo Inc., just wasn't used to seeing such miserable numbers. Or perhaps the \$5.3 billion in charges Westinghouse Electric Corp. had suffered over the previous three years were too numbing. But when Jordan took the top job at the \$8.9 billion electrical equipment and defense company last year, all he could see was a menacing cloud of financial distress. Had he looked a little harder, he might have seen the silver lining.

Thirteen months later, that's all Jordan wants to talk about. It turns out that the same massive losses that brought Westinghouse to the brink of Chapter 11 in 1992 translate into 12 to 14 years' worth of tax-loss carryforwards. Put more simply, Westinghouse won't write another check to the Internal Revenue Service for more than a decade. Instead, analysts estimate, Jordan will enjoy \$150 million this year in free cash to go along with the \$320 million he liberated by slashing costs and restructuring the company's balance sheet.

"Taxes don't mean much to us," Jordan says with a smile. And that's

why he's suddenly out doing deals. On July 14, Westinghouse surprised Wall Street by announcing that it would enter into a joint venture with CBS Inc. to produce programming and invest in new television and radio stations. Investors had expected Jordan to sell Westinghouse's five profitable Group W TV stations to raise cash. Instead, Jordan has committed at least \$250 million to expand the business.

**SAVVY MOVES.** He provoked the same sort of surprise in February, when he announced the purchase of United Technologies Corp.'s \$220 million radar unit, Norden Systems. That bolstered a defense-electronics unit that many had expected him to sell. He also is bidding with Britain's Nuclear Electric PLC for a \$4.7 billion nuclear power project in Taiwan. And Westinghouse has landed a \$400 million contract to revamp a nucle-

ar plant in the Czech Republic. Meanwhile, the nonnuclear power generation business, which has grown 50% in the past five years, is landing contracts in Asia and South America.

Since joining Westinghouse in June, 1993, Jordan has bolstered the Pittsburgh company's top ranks with executives from his two former employers—PepsiCo and McKinsey & Co. They have sold Westinghouse Electric Supply Co. and the company's Distribution & Control unit for a total of \$1.4 billion. They have unloaded much of the real estate portfolio responsible for the losses under ousted former Chairman Paul E. Lego. That allowed them to reduce debt from \$7.6 billion to \$3.3 billion. Then came a \$500 million private placement of convertible preferred stock to boost equity.

"The major financial issues are behind them," says PaineWebber Inc. analyst Mark D. Altman. But investors are slow to believe it. Wall Street responded to Jordan's CBS deal with a yawn, and the stock barely budged from 12. The problem is that several of the balance-sheet restructuring moves—including the private placement—will dump a pile of new common shares on the market over the next few years. Investors, figuring their own shares will be diluted in the process, had been hoping that Jordan would use his cash to buy back stock.

Jordan's response: Look at that silver lining. Not only is Westinghouse expected to turn a \$265 million net profit this year, compared with a \$326 million loss in 1993, but the tax benefit should free up \$590 million in cash over the next three years, analysts say. Moreover, because of the carryforwards, any earnings in acquired companies, such as Norden, are also tax free. After paying down debt and pension obligations, Jordan says that he plans to use the cash to buy more TV and radio stations and defense companies. Within two or three years, he says, he will start buying back stock, giving beleaguered shareholders a break.

Westinghouse still has plenty of problems, not the least of which is its heavy reliance on the vexing nuclear energy industry for revenue growth. But given where the company was only a year ago, 1994 still looks good. Jordan, who often commutes on weekends to his homes in Dallas and Santa Fe, N.M., has even bought a house on the east side of Pittsburgh. "It's pretty nice around here," he says with a note of surprise, "when it's sunny." The same could be said for Westinghouse.

*By Stephen Baker in Pittsburgh*

### OLD WESTINGHOUSE, NEW TRICKS

**POWER GENERATION** Recent growth has come from nonnuclear power, a \$1.9 billion business. Jordan hopes for big contracts in Latin America and Asia.

**NUCLEAR** Westinghouse is revamping plants in the Czech Republic and looking for similar contracts in Eastern Europe, Taiwan, and eventually, China.

**BROADCASTING** Its linkup with CBS gets the \$705 million division into big new markets and provides a powerful partner for programming.

**DEFENSE ELECTRONICS** Jordan has phased back defense conversion, shying from the earlier goal of 50% nondefense business for the \$2.6 billion division.



Commentary/by Kevin Kelly

## A CEO WHO KEPT HIS EYES ON THE HORIZON

**M**ost chief executives are loath to give up power before they must. Not Cummins Engine Co. Chief Executive Henry B. Schacht. At 59, with mandatory retirement six years away, Schacht decided to avoid the distractions of a lengthy transition. So on July 12, he stepped aside as CEO to make way for a successor. Why not hang around until pension time? "What I'd like to do is irrelevant," he says. "I have to do what's best for Cummins."

It's fitting that Schacht's departure was made with an eye toward the fu-

handsome profits. On July 20, the company reported that profits for its second quarter, ended July 3, rose 35%, to \$66 million. Last year, Cummins earned \$177 million on sales of \$4.2 billion. This year, analysts expect profits to jump 35%, to \$240 million. Shareholders who stayed through the tough times saw their stock double in 1993, to 101%, before a 2-for-1 split.

**NEW VENTURES.** To say that Schacht labored long and hard would be an understatement. Beginning in the late 1970s, Schacht began overhauling his

for 39% of sales. The sweetest irony of all: In 1993, Komatsu asked Cummins to build midrange engines for its construction-equipment line.

None of this was without cost, of course. When the Japanese invasion seemed imminent, Schacht took a radical step: He cut prices 30%. That kept rivals from gaining but savaged Cummins' bottom line. Until last year, the company had lost money nearly every year since 1986. And Cummins stumbled in 1988 when it introduced a line of heavy-duty engines riddled with flaws.

That allowed rival Detroit Diesel Corp. to snatch market share it has never surrendered. Then raiders, eyeing the company's rich cash flow, began circling.

**PATIENCE.** To his credit, Schacht stayed the course. He drove down costs by restructuring, and when sharing the pain was called for, he didn't hesitate. In 1989, he instituted across-the-board pay cuts and whacked his own salary 15%. To ensure that Cummins would have the financing to continue investing for the fu-



SCHACHT: THE PAYOFF CAME SLOWLY

### A SAVVY MANAGER'S PRIMER

*How Henry Schacht revved up Cummins*

- Met challengers' pricing and battled for market share
- Redesigned factories to cut costs and boost productivity
- Embraced work teams from the factory to executive row
- Sold a 20% stake to three big customers—Ford, Tenneco, and Kubota
- Created a clear path for management succession

ture. His 21 years atop the nation's largest diesel-engine manufacturer were defined by a passion for looking ahead. It allowed him to go toe-to-toe with the Japanese in the early 1980s and win—while many of his peers were in full retreat. Schacht invested in technology, expanded into new markets, and upgraded the skills of employees. And when raiders threatened to sidetrack his goals, he recruited investors willing to back his vision. Says David Hoyt, an executive vice-president at Frigidaire Co.: "He has an ability to sense future trends and respond faster than anybody I've met."

Schacht leaves with an important message for Corporate America: The long-term view pays off. During the past two years, his near decade-long restructuring has begun delivering

company. He started benchmarking Cummins' performance against rivals such as Komatsu Ltd. long before it was the rage. And he made Cummins an early advocate of quality initiatives and just-in-time inventory systems. From 1985 to 1993, sales per employee increased 63%.

Just as important, Schacht spent a lot of time repositioning Cummins. During the 1970s and early 1980s, it dominated the North American market for heavy-duty diesel engines, with a 50% market share. But Schacht and his team figured that demand would fall as the market matured, so he pushed the company into new ventures, including engines for light trucks. Last year, these midrange engines, which go into Ford Motor Co. and Chrysler Corp. trucks, accounted

for 39% of sales. The sweetest irony of all: In 1993, Komatsu asked Cummins to build midrange engines for its construction-equipment line.

And more than many chief executives, Schacht has paid attention to his people. Cummins offers as much as 100 hours of training to workers annually, and its factories operate on a team system that puts power in the hands of those who work the assembly line.

Perhaps his most important achievement is the staff he leaves in place. "He has left the company in the hands of strong people," says Tenneco Inc. CEO Dana G. Mead, also a Cummins board member. Of course, in Henry Schacht, they've had a good teacher.

*Kelly covers manufacturing.*

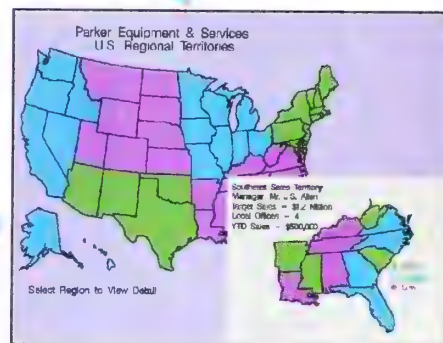
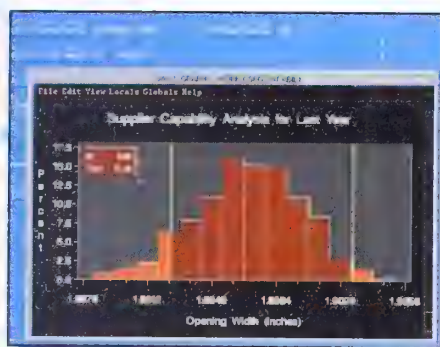


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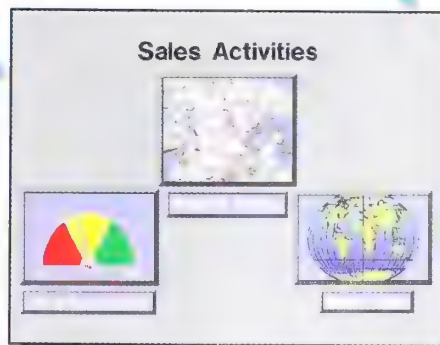


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## 'CAPTAIN CRUNCH, PICK UP THE WHITE COURTESY PHONE'

A who's who of hackerdom descends on Las Vegas for a convention

**H**ands down, it's the unlikeliest computer conference around. It's called Def Con, and it's quickly turning into the annual meeting of the Computer Underground. For the second sultry July in a row, assorted hackers, crackers, and phone phreaks are flocking to Vegas to discuss how to infiltrate computer systems, among other topics. In hot pursuit are various attorneys, computer company security officials, and law enforcement officers. "Toto, I don't think we're at Comdex anymore," says Code Ripper, taking a dig at the computer industry's legitimate fall convention. Code Ripper, a hacker and occasional columnist for *Gray Areas* magazine, is a pseudonym.

Few, it seems, use their real names at Def Con, which begins July 22. Unlike other hacker conventions, this one openly extends invitations to such agencies as the Secret Service and the Federal Bureau of Investigation so they don't have to snoop around. Nobody's taking any chances, though. Last year, the number of cops, real and imagined, lurking about Def Con spawned a "Spot the Fed" contest. Winners received special T-shirts.

**SEMINARS.** The conference is the brainchild of 24-year-old Dark Tangent, a.k.a. Jeff Moss, a second-year law student at the University of Dayton. He says the name Def Con was chosen for its military overtones. (The defense industry is a favorite hacker target.) Moss, who insists he doesn't do anything illegal anymore, grew up in Seattle sorting through the dumpsters of giant Microsoft Corp.—virtually every computer disk he owns has a Word 4.0 label on it. Because he had observed that most hacker gatherings quickly degenerate into drunken parties, he decided to elevate his event to a discussion of social and policy issues. Thus the invitations to the Feds and serious seminars on topics such as hacker ethics and laws governing search and seizure.

"I'm going just to see what the other side is up to," says Gail Thackeray, a 45-year-old district attorney in Phoenix. Thackeray, who played a key role in Operation Sun Devil, a Secret Service undercover probe into phone-card fraud four years ago, was generally lambasted by attendees when she volunteered to field questions at last

tion). The late shift of Sands security guards, unaware that Def Con organizers had arranged for the meeting rooms to be open 24 hours a day, attempted to evict Code Ripper, Merc, and the Prophet, three young hackers who had decided to crash there overnight. After the incident, one hacker offered Moss the phone number and passwords for the computer that runs the casino. "You think that the casino would have had a functional security system set up," says Moss. "Not."

This year, Moss has shifted to the Sahara Hotel & Casino and expects attendance to triple, to more than 300. He has scheduled 22 speakers—fewer than half with fake names. Given that the keynote speaker is cryptographer Philip Zimmermann, the meeting's hot topic promises to be data encryption.

Zimmermann is an outspoken opponent of the government's controversial Clipper chip—a data encryption standard featuring a back door that allows law enforcement officials to engage in court-sanctioned decoding of eavesdropping. Indeed, he is the target of a federal grand jury investigation in San Jose, Calif., because his program, called PGP for Pretty Good Privacy, ended up overseas in violation of U.S. munition export regulations. So far, as anyone knows, the National Security Agency—the Clipper chip's main driver—has been unable to break into data encrypted by PGP.

The heart and soul of Def Con, however, are the technical sessions held around midnight. They're more attuned to hard-core hacker time and tastes. Take "Twenty Ways to Trash

PC," by Mark Ludwig, who wrote a how-to book for virus programmers. There's the session on network security—which is actually being held via videoconference because the expert doesn't want to show up in person, presumably for legal reasons.

Some of those sessions admittedly strain prosecutor Thackeray's limits. But hey, she's game. "Def Con has something for everyone," she says. "It's partly an entertaining party, it's partly a fashion statement. But it's mostly something about which the business world has no clue." Moss's advice to Corporate America: Load up your laptops; we're heading to Vegas.

By Larry Armstrong in Los Angeles



**DARK TANGENT, A. K. A. JEFF MOSS: THE HACKERS' CONFAB, NOW IN ITS SECOND YEAR, IS HIS BRAINCHILD**

year's confab. "There were lots of hacking discussions, but a lot of time was spent in substantive presentations as well," she says. "And I don't think anyone did anything overtly criminal."

They came close. Last year's Def Con was held at the Sands Hotel & Casino (which, ironically, is owned by the same group that runs the Comdex conven-



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EDITED BY KATHLEEN MADIGAN

## THE GREENBACK HAS GREENSPAN WORRIED

Is the Federal Reserve preparing to shore up the dollar with a dose of higher interest rates? The central bank has historically resisted such moves, and some Fed officials privately believe that nothing short of a full-point hike will help the greenback. But traders were left to ponder the prospect after Chairman Alan Greenspan told Congress the "thing that has worried me most is clearly the weakness in the dollar." In a July 20 testimony to the Senate, Greenspan said the dollar's drop this year—8% against currencies of the nine largest industrialized nations,

on a trade-weighted basis—is "bad for the economy," adding that it could trigger higher inflation if not reversed.

## WAVING GOOD-BYE TO WELLS FARGO

Carl Reichardt says he will step down in January as head of Wells Fargo Bank after 12 years—and a 1,781% return to shareholders to date. The salty Texan will be replaced by President Paul Hazen. Reichardt, 63, gave no reason for retiring early. "I'm in super-good shape for a guy who doesn't take good care of himself," the portly Reichardt insists. He's certainly leaving Wells in the pink of health. Even as the California economy sputters, the bank is churning out robust earnings and now plans to buy back as much as 10% of its shares.

## MTV'S RIVALS ARE FACING THE MUSIC

Ever since five record companies launched their plans for a competing music-video channel, MTV has been crying foul. Now, the Justice Dept. seems to be listening. On July 20, Robert E. Litan, Deputy Assistant Attorney General, confirmed that his department has begun a preliminary investigation of the channel. A music source adds that the five partners have all received subpoenas. They are Sony Music Entertainment, Warner Music, PolyGram, EMI Music, and Bertelsmann Music.

## THIS RAILROAD IS NO LONGER A SIDELINE

What synergy is there between trains and mutual funds? Not much, Kansas City Southern Industries admitted on July 19, when it agreed to sell its century-old railroad to focus on financial services. Pending IRS and Interstate Commerce Commis-

## HEADLINER

## THIS BIOTECH EXEC CAN'T BUY A BREAK

Most biotech executives complain that stingy capital markets don't appreciate the vast promise inside their labs. Synergen CEO Gregory Abbott has the opposite problem: He has a \$135 million pile of cash but nowhere to spend it. On July 18, Synergen announced that it was deep-sixing work on its flagship drug, Antril, which was being developed to treat septic shock. Abbott made his decision after a second major study showed the drug just didn't work.

Wall Street analysts are dubious about other products in Synergen's pipeline, too, and in just one day the mar-

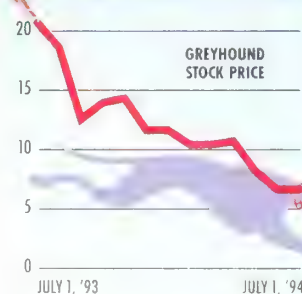
ket halved the stock's value to 4.37. That's quite a comedown from the 70s that Synergen was trading at just a couple of years ago. Abbott, whose company has been burning cash at the rate of \$20 million per quarter, says he will reduce Synergen's 60-plus workforce by more than 50%, and he may also shut around for a buyer. Whatever else happens, the woes

Synergen are likely to spook bio-investors, who are already a wary lot. Indeed, biotech stocks are so depressed that with \$135 million in hand, Abbott might even be able to buy a competitor or two.

By Joan O'C. Hamilton



## CLOSING BELL



## A BUMPY RIDE

After a year of earnings let-downs—including an estimated \$45 million net loss for the June quarter—Greyhound Lines has a new plan for steering back to profitability. On July 14, CEO Frank Schmieder announced that the bus line, pummeled by low fares, will focus on routes of only 100 to 400 miles. Riders will still be able to take a bus cross-country—they'll just have to make more stops along the way. The strategy could cause revenues, which totaled \$666 million last year, to fall by \$50 million. Major investors, who have watched the stock price fall from a 52-week high of 22, are hopeful: Greyhound's stock rose 1/2, to 6 5/8, on the news.

DATA: BRIDGE INFORMATION SYSTEMS INC.

sion approvals, Kansas City Southern Railway will be sold to Illinois Central for \$1.6 billion in stock and debt, creating the nation's eighth-largest railroad in revenues. The sale would leave the parent company owning Janus Capital, adviser to the \$22 billion Janus Funds, and DST Systems, the leading record-keeper for the mutual-fund industry.

## MORE SHAKEUPS COMING AT PEPSI?

Rumors are rampant at PepsiCo. On July 19, Pepsi announced flat earnings for the second quarter—and the resignation of John Cranor III, CEO of beleaguered KFC. Cranor is succeeded by David Novak, a former executive vice-president at the company's flagship Pepsi-Cola North America Div. In a related move, Brenda Barnes was promoted to chief operating officer at Pepsi-Cola. Barnes's promotion heightens speculation that more changes

are coming. Headhunters say that PepsiCo CEO Wayne Calloway, who is recovering from prostate cancer, is looking for an executive from outside the company to succeed him. But Andrall E. Pearson, former president of Pepsi and now Pepsi director, says there's no search under way. "I can't understand how that kind of rumor could get going, but the board is not putting pressure on [Calloway] to find a successor," says Pearson. "They've had one bad quarter, so just relax."

## ET CETERA...

- ▶ Quantum agreed to buy Digital Equipment's disk-drive operations for \$400 million.
- ▶ The U.S. Customs Service is investigating consumer-electronics maker Recoton.
- ▶ The price of 1995 Saturn will rise 1.5%, less than other cars made by General Motors.
- ▶ Takeover omen? Oracle purchased a 7.7% stake in smaller software rival Gupta.



## THE JOB-TRAINING SQUABBLES: IS THIS ANY WAY TO REINVENT GOVERNMENT?

**H**ow tough is it to reinvent government? Just ask Labor Secretary Robert B. Reich. The former Harvard lecturer began his Washington tenure with a laudable objective: He wanted to crunch 154 federal job-training programs dispersed among 14 federal agencies into a more focused "re-education" system that could provide easy access for dislocated workers. Reich chose to start modestly, by consolidating nine training programs within his own department.

But organized labor, mayors, and many members of Congress, ever suspicious of sipping off even the most ineffectual jobs program, have balked at these low-key reforms. As a result, Reich's consolidation drive could be doomed. "It's always an uphill battle," he concedes.

There's little doubt that the government's \$25 billion job-training bureaucracy needs an overhaul. Companies complain that workers who emerge from the programs often lack the skills they need to perform their jobs. And a recent General Accounting Office report concludes that few programs are well managed. "Administrators did not know if participants got jobs," the report says. "If they got jobs, administrators did not know whether the jobs were related to the training provided."

**HARP ELBOWS.** Reich's remedy seemed innocuous. Included in the consolidation was a plan to establish one-stop career centers where the unemployed could apply or everything from food stamps to training. And a new computerized job bank would have given workers up-to-date data on local labor-market conditions. "The economy has changed," says Reich. "The system has not."

By retooling a handful of programs within his department, Reich avoided turf wars with other agencies, from the Agriculture Dept. to the Veterans Affairs Dept., that have their

own training programs. Instead, he ran into turf wars on Capitol Hill. Unions were irate that Reich's plan would undermine the generous \$270 million program for workers who lose jobs to foreign competition. Unionized government workers were equally outraged that Reich would let private companies run some one-stop career centers, imperiling bureaucrats' jobs. "We don't want the federal employment service cut out of the picture," says one AFL-CIO leader.

Although employers backed Reich's goal, some business lobbies balked at one provision: making a 0.2% payroll tax permanent—even though it has lingered on a temporary basis for 17 years. And mayors worried about a rule that each employment center serve at least 200,000 people. That goal would force the merger of a number of local programs and cut the power of many mayors to dispense training grants.

**OBJECT LESSON?** To complicate life for Reich, Senate Labor & Human Resources Committee Chairman Edward M. Kennedy (D-Mass.) and the panel's ranking minority member, Nancy L. Kassebaum (R-Kan.), think the Labor Secretary's proposal doesn't go far enough. They're crafting a measure that could consolidate 110 programs. But other committee chairmen who don't want the programs they oversee changed will

likely block this more ambitious effort as well.

For the Clintonites, the trouble the Administration is having in fixing the retraining mess is an object lesson in the difficulties it will have transforming well-intentioned reinventing-government rhetoric into reality. Reich thought his "think small" approach provided the answer to entrenched interests who would resist wholesale change. But he's learning that in Gridlock City, even modest change is to be feared.

*By Christina Del Valle*



REICH: FOES IN THE WOODWORK

### CAPITAL WRAPUP

#### POLITICS

**A**fter decades of party-switching by Southerners abandoning the Democrats, a countertrend is emerging: Centrist Republicans alienated by ultraconservative Christians in the GOP are becoming Democrats. This year, three former Florida Republicans—economic conservatives but social moderates—are running for Congress as Democrats. Susan Munsey, executive director of the Cocoa Beach Area Chamber of Commerce, could win an open seat in the Cape Canaveral area. Hermine L. Weiner, president of the Palm Beach Town Council, is an underdog against incumbent Republican Rep-

resentative E. Clay Shaw. The third Republican-turned-Democrat, former Palm Beach County Commissioner Ron Howard, is in a wide-open race for the Democratic nomination.

#### HEALTH CARE

**C**EOs are taking a personal interest in the health-care debate. In a letter to President Clinton and congressional leaders, 21 corporate chieftains who have backed employer mandates, including IBM's Louis Gerstner and GE's Jack Welch, complain that the four bills pending in Congress would undercut their efforts to curb health costs. The measures, they say, could be "far worse for us than no reform."

#### TRADE

**T**he White House is having a hard time wrapping up its efforts to design a voluntary code of conduct for companies doing business in China. Among other things, the code would help companies avoid purchasing products made by prison labor. It was supposed to be in place by midsummer to help blunt congressional moves to hike tariffs on goods made by China's military and some state industries. But companies fear lawmakers will make any completed code mandatory as part of a sanctions bill. So business is dragging its heels in talks with the White House.

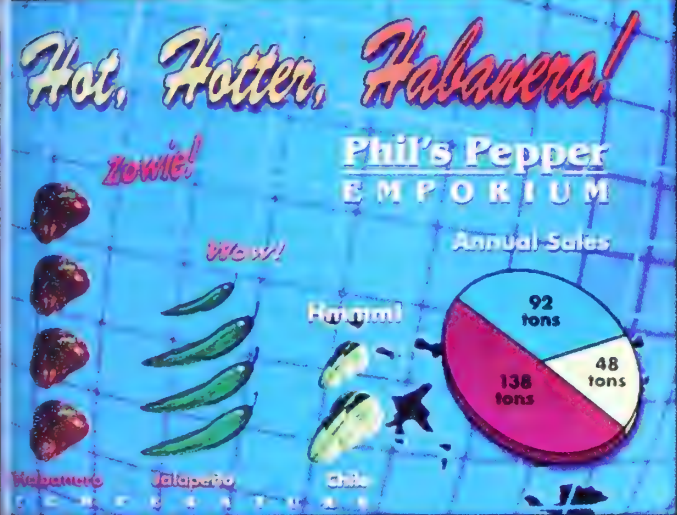


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CHINA

# DAMPING LABOR'S FIRES

**CAN BEIJING CALM WORKERS AND SUSTAIN GROWTH?**



In the boom towns of southern China, worker safety often takes a backseat to fast profits. During the past few months alone, a series of deadly accidents claimed hundreds of lives. In mid-July the government responded, with more than 60 teams of inspectors descending on Shenzhen and halting work at over 1,000 dangerous construction projects. Critics say much more needs to be done. "We've seen one disaster after another," says Winne Tam Pikan, executive secretary of the Hong Kong Confederation of Trade Unions. "If they don't take action, there will be many more."

Throughout China, Beijing is facing a labor backlash against its fast-growth policies. In the south, accidents, plant fires, and dismal living conditions have created a tinderbox atmosphere at thousands of new factories put up by foreign investors in recent years. In the northern Rust Belt, shrinking paychecks and threats of unemployment have sparked protests at the huge state-owned companies that are the heart of Chinese industry.

With the labor temperature rising, Beijing is now being forced to act. In the state sector, the government is backing off from ambitious plans to cut subsidies because that would have caused more job losses. Moreover, in recent weeks, Beijing has issued a series of decrees aimed at curbing abuses by foreign joint ventures, which will be forced to organize workers in unions and to abide by new laws regulating child labor. Yet local officials are hesitant to crack down too hard on labor abuses for fear that it may scare off foreign investors and cause even more labor problems.

**STRIP SEARCHES.** The need for action is clear. In foreign-funded factories, which employ about 6 million Chinese in the coastal provinces, accidents abound. In some factories, workers are chastised, beaten, strip-searched, and even forbidden to use the bathroom during work hours. At a foreign-owned company in the Fujian province city of Xiamen, 40 workers—or one-tenth of the workforce—have had their fingers crushed by obsolete machines. According to official reports, there were 45,000 industrial accidents in Guangdong last year, claiming more than 8,700 lives.

Overseas accounts of factory fires have embarrassed Beijing and forced it to launch a damage-control operation.

**TEENAGERS IN A TOY FACTORY DORM IN GUANGDONG: THE GOVERNMENT AIMS TO STEM ABUSES AGAINST CHILDREN AND REDUCE THE THOUSANDS OF FATAL ACCIDENTS**



Last month, after 76 workers died in a Guangdong factory accident, official newspapers and TV provided extensive coverage when President Jiang Zemin visited the survivors. The official press is now highlighting abuses at foreign enterprises in an effort to show workers how much better things are at Chinese-run factories. The government is also singling out Hong Kong, Taiwan, and other Asian investors as the main culprits. "Their emphasis on profits and their cavalier disregard for safety open the door to more accidents," warns Wang Yuxian, director of the International Liaison Dept. of the government-run All-China Federation of Labor Unions (ACFLU).

Western diplomats in Hong Kong insist that not all of the transgressors are from outside China. Some of the worst factory owners are mainland Chinese who have set up shell companies in Hong Kong that reinvest in China at a reduced tax rate. Both overseas and mainland Chinese have proved adept at getting around regulations that are supposed to ensure worker rights. Many investors bribe local party cadres, while other officials, eager to attract business to their province, are willing to accept foreign investment at any price.

**STRIKES AND SLOWDOWNS.** Since decentralization of authority has made it easier for local officials to cut deals with foreign investors, Beijing wants to reassert control by ordering foreign-funded joint ventures to set up branches of its ACFLU. Only 12% of these enterprises now have union branches. The ACFLU, nicknamed a "yellow union" by critics, is notorious for its pliant cooperation with its masters in the central government. Having it in the factories will therefore help Beijing gain influence over management and local government officials. It won't, however, do much for most workers, say labor activists. "Yellow unions are totally useless," says Hong Kong Confederation of Trade Unions Director Tam. "Whenever management negotiates with the union, the union agrees with management."

As it tries to reassert a measure of control over the entrepreneurial south, the central government also must fix the deep-rooted labor problems in the industrial north. State enterprises, which dominate the northern economy, employ nearly half of China's urban population, and half of those companies are losing money. Official statistics put urban unemployment at 5 million this year, a 15% increase over last year. But by other accounts, that figure is too low. According to Han Dongfang, the Chinese labor-union activist exiled to Hong Kong,



## CHINESE WORKER WOES

### FATAL ACCIDENTS

Dozens of workers have died in fires in foreign-funded factories this year

### PAY CUTS

Employees of many foreign state enterprises have seen their paychecks shrink by as much as 50%

### THREATENED LAYOFFS

Tens of millions of urban workers are underemployed at companies on the verge of bankruptcy

### MEEK UNIONS

The official trade workers' organization is controlled by Beijing and rarely stands up for workers

—THE ECONOMIST

as many as 50 million workers—or half the total workforce at state factories—are on the verge of unemployment.

For now, Beijing is unwilling to allow many enterprises to go bankrupt for fear of social unrest. The government got a taste of worker anger recently in the northeastern province of Heilongjiang, where some 2 million workers lost their jobs in 1993. According to Hong Kong and diplomatic sources, in March some 100,000 workers took to the streets in the province's two major cities, Harbin and Qiqihar, to protest pay cuts. In mid-April, China's economic czar, Vice-Premier Zhu Rongji, visited the province and sacked its governor, these sources say. That won't deter workers, who have engaged in unpublicized strikes or slowdowns across China to demand such things as decent wages and better working conditions.

Given the backlash by urban workers, reform of the state sector has not proceeded as swiftly as the leadership had hoped. This year the government was supposed to launch an experiment that would completely revamp the man-

**THE SHELL OF A SHENZHEN PLANT DESTROYED BY FIRE: OVERSEAS REPORTS OF FACTORY BLAZES HAVE EMBARRASSED BEIJING, WHICH IS QUICK TO BLAME FOREIGN OWNERS**

agement structure of 100 state enterprises. Officials say enterprise reform will take place later this year, but as of now, nothing's

happened, says Fan Gang, an economics professor at the Chinese Academy of Social Sciences in Beijing. Moves to privatize unprofitable state enterprises or convert them into shareholding companies have also stalled because of government fears that too many state assets will flow into foreign hands.

**"WARNING LINE."** Beijing hopes to create a social welfare system to ease some of the pressure. On July 1, unemployment insurance became mandatory in Beijing, where labor and management contribute to a fund used to pay off unemployed workers. In some cities, the government is setting up an "unemployment warning line," or an acceptable rate of unemployment. If a locality exceeds that amount, it can tap into newly formed central and provincial unemployment insurance funds. Beijing has also announced a new labor law that was 16 years in the works. Effective next January, the law sets a minimum age of 16 for workers, a minimum wage, and an average workweek to be limited to no more than 44 hours and six days a week.

In this jittery climate, the government is moving to prevent the rise of a Solidarity-type labor movement by suppressing labor activists. Leaders of the League for the Protection of the Working People, an unofficial group of labor activists claiming 120 signatories around the country, have been arrested.

The challenge for China's Communist leaders is to prevent organized unrest from spreading while cooling off the economy to manageable levels. So far, Zhu seems to be orchestrating a soft landing, with economic growth slowing to 11.6% in the first half of this year, down from 13.7% for the same period in 1993. Inflation, too, is dipping from 25.9% to 22.7% in the major cities. And many workers at state enterprises are finding new jobs in the private sector.

But, as the fatal accidents in the south prove, the private sector alone won't solve the labor problems. Tens of millions of rural workers are still streaming to the cities, and millions more urban workers are facing pay cuts and layoffs. For the leadership in Beijing, the pressure of finding enough jobs for the world's largest workforce could leave safety concerns in danger.

*By Joyce Barnathan, with Matt Forney, in Beijing*





PROTEST IN TAIPEI: ANTINUCLEAR ACTIVISTS SAY THREE PLANTS ARE ENOUGH

## WOONG WASHINGTON WITH NUCLEAR POWER

Taiwan may choose an American contractor in return for diplomatic favors

**A**fter Typhoon Tim slammed into Taiwan in early July, power blackouts pitched homes into darkness for days. For Taiwan's 21 million residents, power outages had already become far too common. State-run Taiwan Power Co. has frequently imposed brownouts this summer, citing a shortage of juice.

But the outages have a bright side. They're helping the government reach two of its top goals: build a fourth nuclear plant to solve the power problem, and improve relations with the U.S. On July 13, Taiwan's legislature approved plans for a \$6.4 billion nuclear power plant. Moreover, as President Clinton reviews his Taiwan policy, Taipei has hinted that it will award the plant contract to a U.S. company in return for diplomatic concessions.

**WINDFALL.** That has pulses racing at Westinghouse Electric Corp. and Swedish conglomerate ABB Asea Brown Boveri (Holding) Ltd.'s U.S. nuclear-systems unit. The two American companies are bidding for prime contracts worth \$2 billion. For Westinghouse, which is teamed with Britain's Nuclear Electric PLC, the contract is expected to generate revenues of more than \$1 billion—roughly equal to the nuclear division's annual sales.

The potential jobs bonanza hasn't been lost on Clintonites. They are considering easing restrictions imposed on

Taiwan since 1979, when the U.S. cut ties and recognized Beijing. The proposals, which await Clinton's approval, allow Cabinet officials to visit Taiwan, Taiwanese officials to meet officially with State Dept. and White House counterparts, and Taiwan to change the name of its U.S. office, Coordination Council for North American Affairs, to something more identifiable. The U.S. may also back Taiwan's push for entry into international economic organizations.

Such modest steps have sparked predictable protests from China. But many China experts, who doubt that Beijing would lash out at the U.S., say the measures are long overdue. In stark contrast with China, Taiwan has made steady progress toward democracy.

Moreover, Taiwan has become too important an economic player to treat as an outpost. Now the U.S.'s sixth-largest trading partner, Taiwan is spending lavishly on telecommunications, transportation, and other infrastructure projects that could be a bonanza for U.S. companies.

But the U.S. is behind the curve in

**As European officials troop through Taipei, U.S. companies fear being left out**

courting the Taiwanese. A stream of top European officials has trooped through Taipei over the past two years. The lame-duck Bush Administration sent U.S. Trade Representative Carl A. Hills in December, 1992, but so far, Clinton has sent no top officials. U.S. companies are lobbying hard for a Cabinet-level visit. "It takes more than good products to get the contract," says Lynn Murray Sien, executive director of the American Chamber of Commerce in Taipei. "It all comes down to who's willing to give Taiwan the greatest diplomatic face."

**HOT HOUSE.** Capitol Hill is turning up the heat, too. Lawmakers were galva-

nized by the handling of Taiwanese President Lee Teng-hui's request in May to stop in Hawaii en route to Central America. The U.S. permitted him to refuel but didn't allow Lee off the plane. In a letter to Clinton, 54 senators called for a new policy. "When are we going to treat Taiwan in a reasonable manner?" fumes Senator Frank Murkowski (R-Alaska), sponsor of an amendment endorsing more U.S. arms sales to Taiwan.

If Clinton approves the policy shift, White House officials say, Commerce Secretary Ronald H. Brown may be the first to visit, during a planned Asian trip in August.

However, even with high-level backing, the nuclear contract isn't a sure thing for Westinghouse or ABB. The project, which has been harshly criticized by Taiwan's main opposition parties, was mothballed for 10 years before the government revived it. Activists say tiny Taiwan, which has three nuclear facilities already, can't safely handle a new one—and they vow to block the project. They're also lacing their protests with anti-U.S. gibes. "The worst of American culture is being dumped on Taiwan," lamented one protester at a recent demonstration in front of Taiwan's legislature.

Analysts say the political wrangling will leave contractors little room for profit. That led General Electric Co. to drop out of the bidding last year, says a GE official in Taipei. For now, though, Taiwan's government is undaunted. It's betting that it has found a solution to electrical brownouts at home and diplomatic blackout abroad.

*By Amy Borrus in Washington and Margaret Dawson in Taipei, with bureau reports*



## ITALY: BERLUSCONI MAY HAVE RUINED HIS BEST CHANCE FOR CHANGE

**W**hen Silvio Berlusconi patched together an unwieldy center-right alliance to battle Italy's left wing in national elections last March, he was cheered on by much of the country's business community. After all, they reasoned, if he could put together a \$7.5 billion media empire in just 15 years, then he should be just the man to streamline Europe's most statist and bureaucratic economy. The population, battered by two years of recession and political crisis, also bought into his pro-growth promises.

But two months after the former media tycoon took office as Prime Minister, Italians' hopes for a fruitful period of political stability are fading fast. Berlusconi has proven inept from the beginning, and now his fragile coalition of neo-Fascists, Northern League regionalists, and his Forza Italia party is badly fraying. Many analysts think he has squandered his chances for the drastic budget-cutting, privatization, and deregulation that were to be the heart of his program for revitalizing the country. "The government has been a total disappointment," says Gianluca Sabadini, a fund manager at Switzerland's Banca Arner, who is telling clients to dump Italian securities.

As some predicted, Berlusconi is finding that the extensive business interests that helped him score his surprise election win in March hobble his ability to govern. He first got into trouble just after taking office in May, when criticism and interference from his government provoked the resignation of the entire board of directors of Italy's state-owned broadcaster RAI. This episode drew charges that Berlusconi was trying to wreck RAI to benefit his Milan-based Fininvest media juggernaut, which dominates Italian commercial broadcasting. Berlusconi is also drawing flak for trying to influence key appointments at the fiercely independent Bank of Italy.

**MAILBREAK.** But it was in mid-July that Berlusconi took his biggest pratfall. With millions of Italians distracted by the World Cup, Berlusconi's Cabinet hastily pushed through decrees to abolish preventive detention for the thousands of politicians and executives charged with corruption. As a result, 1,859 prisoners walked, although only about 10% of them were in jail on corruption charges.

The seemingly blatant attempt to curb Italy's hugely popular anticorruption campaign produced a national outcry. There were charges that he was trying to protect cronies, including several Fininvest executives who are under investigation. The much admired investigating magistrates threatened to re-

sign en masse, and the Northern League threatened to desert the coalition. With his government in danger of falling, an angry and humiliated Berlusconi was forced to back away from the measures on July 19.

This debacle badly damaged Berlusconi, who now may be vulnerable to further attacks on his business ties. All this spells trouble for his economic program. The architect of those measures, Treasury Minister Lamberto Dini, conceded as much in an interview with *BUSINESS WEEK*. Dini wants \$20 billion in spending cuts for next year alone, largely through hacking away at lavish health-care and pension programs. "But it won't be easy" for the government to win approval, he says. The cuts are necessary to curb the runaway deficits that have plagued the country's finances.

Dini, a conservative former director general of the Bank of

Italy, remains hopeful of achieving significant reform. "Berlusconi by now appreciates the fact that while some of these measures may be unpopular," he says, "the cost of doing nothing for six months or a year will be even greater." But the fact is that the unsettled political climate in Rome, as well as a recent wave of strikes that hit everything from Alitalia to Sardinian coal mines, means the new plan is likely to be vastly watered down when Parliament votes on it by mid-September. Investors already are queasy. The Italian lira is at record lows against the German mark, and Italian bonds are way down.

Disagreements among Berlusconi's coalition part-

ners also seem likely to curb another big component of his economic plan: privatization. Dini wants to sell off such state companies as \$19 billion telecommunications giant STET and electric utility ENEL. But far-right elements of the government want strict limits put on foreign investments in strategic areas, such as telecommunications. That could slow down the sell-offs.

But Berlusconi is not dead yet. A run of good luck might allow him to recover strength. He's getting help from an economy that is looking surprisingly buoyant after its worst post-war recession. Industrial production will likely be up 7.5% this year. Money in people's pockets could make cuts easier to swallow. Despite the squabbling, coalition partners will be reluctant to break up the show and bring on new elections, as such a move could backfire. Still, many Italians are starting to get the sinking feeling that the new Italy ushered in with such fanfare just two months ago is looking a lot like the old one.

*By John Rossant in Rome*



**ON STRIKE: LABOR UNREST LOWERS SUPPORT FOR SOCIAL-SERVICE CUTS**





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# MANAGING BY VALUES

IS LEVI STRAUSS' APPROACH VISIONARY—OR FLAKY?

**T**alk, talk, talk. As a black mid-level executive at Levi Strauss & Co. in the early 1980s, that's all Louis Kirtman got from the white men above him in top management. Levi's had long enjoyed a reputation as a socially responsible employer. But that didn't mean much to Kirtman as he watched black executives he thought were highly qualified passed over for plum jobs, while his own career seemed stalled on a lonely plateau. Top management always mouthed diversity, Kirtman says, "but in the end, they chose people they were comfortable with" for key positions.

Fast forward to 1994, and Kirtman is a much happier man. As president of Levi's Britannia Sportswear division, the 48-year-old executive is a step away from joining the company's senior management ranks. Life changed for him in 1985, when senior executives began feeling heavy pressure from above to make "workplace diversity" a reality rather than a topic of conversation. The chief of Levi's then-ailing European division tapped Kirtman to help rescue the unit. The young executive made the most of his opportunity and landed on the fast track. "We started to improve at Levi's," he says, "when we stopped talking about values like diversity and started behaving that way."

Levi Strauss is embarked on a grand social experiment. It is struggling mightily, though not always successfully, to live up to a singular, lofty vision of how to run a modern corporation—a vision set forth by none other than Chairman and Chief Executive Robert D. Haas, the great-great-grandnephew of founder Levi Strauss (page 51). The vision combines traditional liberal idealism with a set of management precepts straight out of the '90s zeitgeist of inclusion and "empowerment." Haas calls it "responsible commercial success." More con-

servative executives might call it flaky.

Haas believes the corporation should be an ethical creature—an organism capable of both reaping profits and making the world a better place to live. Creating tangible opportunities for minority employees such as Kirtman is only one part of the equation. Haas is out to make each of his workers, from the factory floor on up, feel as if they are an integral part of the making and selling of blue jeans. He wants to ensure that all views on all issues—no matter how controversial—are heard and respected. The chairman won't tolerate harassment of any kind. He won't do business with suppliers who violate Levi's strict standards regarding work environment and ethics. A set of corporate "aspirations," written by top management, is to guide all major decisions.

If many of these goals sound familiar, it's because countless other companies have tried to embrace them to one degree or another. Xerox, Johnson & Johnson, and MCI are all noted for their efforts to promote diversity of background and thought among their workers. Nike, Microsoft, and Federal Express are well known for pushing authority down through the ranks and allowing employees plenty of input when it comes to running the business.

Some companies approach diversity and empowerment as competitive tools. "We don't encourage homogeneity here," says Timothy F. Price, president of business markets at MCI Communications Corp. "The price you pay for conformity is lack of creativity." Others are learning to give ethnic minorities, homosexuals, and women protection and respect out of

**THE CEO  
AS GURU  
LEVI'S HAAS  
ESPOUSES  
"RESPONSIBLE  
COMMERCIAL  
SUCCESS"**



a late 20th century defensiveness: In an ever more litigious society, they fear being sued.

No company, however, has embraced a values-based strategy the way Levi's has. Sitting in his San Francisco office wearing a pair of pointy-toe boots, a plaid shirt, and stone-washed 501s, Haas explains why: "We are not doing this because it makes us feel good—although it does. We are not doing this because it is politically correct. We are doing this because we believe in the interconnec-





## WHAT LEVI'S ASPIRES TO

### NEW BEHAVIORS

Management must exemplify "directness, openness to influence, commitment to the success of others, and willingness to acknowledge our own contributions to problems."

### DIVERSITY

Levi's "values a diverse workforce (age, sex, ethnic group, etc.) at all levels of the organization.... Differing points of view will be sought; diversity will be valued and honestly rewarded, not suppressed."

### RECOGNITION

Levi's will "provide greater recognition—both financial and psychic—for individuals and teams that contribute to our success...those who create and innovate and those who continually support day-to-day business requirements."

### ETHICAL MANAGEMENT PRACTICES

Management should epitomize "the stated standards of ethical behavior. We must provide clarity about our expectations and must enforce these standards throughout the corporation."

### COMMUNICATIONS

Management must be "clear about company, unit, and individual goals and performance. People must know what is expected of them and receive timely, honest feedback...."

### EMPOWERMENT

Management must "increase the authority and responsibility of those closest to our products and customers. By actively pushing the responsibility, trust, and recognition into the organization, we can harness and release the capabilities of all our people."

DATA: LEVI STRAUSS & CO.

tion between liberating the talents of our people and business success."

Haas points to a study issued on May 30 by Gordon Group Inc. for the California Public Employees' Retirement System (CalPERS). Its conclusion: Companies that involve employees more often in decision-making boast stronger market valuations than those that don't. The report suggested that CalPERS might see stock gains by pressuring companies to improve workplace conditions. Says Richard H. Koppes, the pension

fund's general counsel: "This is one of the screens we'll use in looking for what companies we target."

Levi's, of course, won't be on Koppes' list. Ever since the \$1.6 billion leveraged buyout Haas led in 1985, the world's largest apparel maker has been a private company. CalPERS would probably like a piece, though. Record sales and earnings for five of the past six years culminated in a 36% rise in profits last year, to \$492 million on sales of \$5.9 billion. And Morgan Stanley & Co. esti-

mates that the stock—94% of which is in Haas family hands—has appreciated 1,300% since the LBO.

But this year, sales have slowed to a crawl, and operating profits will likely decline. A big problem is that Levi's is proving clay-footed when it comes to developing new products and getting goods into its retail outlets. Has the company's emphasis on "values" distracted it from the nuts and bolts of running its business? Haas says no, but plans to spend \$500 million starting this



summer to restructure Levi's manufacturing, marketing, and distribution systems. He feels the company is in a temporary lull; in the long run, he insists, the cultivation of a culture devoted to such values as diversity and empowerment will make Levi's all the more responsive in the marketplace.

The jury is still out on that. BUSINESS WEEK had the opportunity to travel within the world of Levi's this spring and glimpse firsthand how Haas's experiment is proceeding. The following set of snapshots provides ample evidence that Haas is a long way from realizing his vision. "We are only a few steps along in our journey," he agrees. "We are far from perfect. We are far from where we want to be. But the goal is out there, and it's worth striving for."

## 'WHAT'S NEXT, CRYSTALS?'

Margaret P. Lourenco wasn't so sure about this values stuff when she first came to Levi's. A 32-year-old, can't-sit-still financial planner, she left J.P. Morgan & Co. in New York for San Francisco in 1990. She remembers well her reaction when she was first given the "Aspiration Statement," the corporate credo at the center of Haas's values-based strategy. "When I first read it," she recalls, "I said 'Phew, what are we going to have next, crystals?'"

A lot of people have that reaction. Printed on paper made from recycled blue denim, the Aspiration Statement hangs on office and factory walls throughout Levi's. To emphasize its gravity, Haas made sure it was crafted by top management, not the human resources department. At Levi's, one-third of an employee's evaluation is based on "aspirational" behavior: Ignore issues such as diversity and empowerment, and

you might not get your raise.

After the button-down atmosphere at Morgan, Lourenco was bemused by the "I'm O.K., you're O.K." nature of Levi's culture. But then she took a chance and politely criticized her boss for what she considered heavy-handed behavior. To her surprise, he agreed and changed his act. "I found that Aspirations isn't about

holder value."

"I haven't seen the word 'nice' anywhere in the Aspiration Statement," growls Robert D. Rockey Jr., president of Levi Strauss North America. Openness and respect don't equate with niceness, he says. "Honesty is the key." Levi's 360-degree review process, which requires that an employee be evaluated



New Age feel-good," she says. "It's about being open and direct. It's about getting rid of hidden agendas."

For his part, F. Warren Hellman worries that a this management-speak risks clogging up the works at Levi's. Doing the right thing is fine, he says, but "there's a danger that this will degrade into a touchy-feely, I-don't-want-to-offend-you, creativity-stifling style of management." Hellman is hardly a disinterested observer. A San Francisco investment banker, he's Bob Haas's distant cousin and a Levi's director.

Don't get the idea that Hellman is not foursquare behind the chairman. Even though he thought it was a terrible idea to leave such a potentially lucrative market, he joined the unanimous board vote to pull \$40 million out of Levi's business out of China in protest of human rights violations there. "Basically, we love Bob," Hellman says. "Bob has made a fortune for everyone, and you owe Bob one." Still, he says, "the challenge for Levi's is to be sure that decisions are not just 'nice' decisions but decisions that are meant to enhance share

## THE LEADERS

ALTHOUGH LOUIS KIRTMAN (ABOVE) IS ON THE FAST TRACK TO THE TOP, LEVI'S UPPER RANKS REMAIN LARGELY MALE AND WHITE



not just by his or her superior but also by subordinates and peers, isn't always pleasant. Rockey says his own evaluation upset my self-image. I thought I was more visionary. I thought I was more caring. I was afraid to be personal." The reviews caused Rockey to loosen up somewhat, to command less, to listen more. But as his fellow workers can attest, the former Navy reserve captain still feels no need to be nice.

## 'WE'RE NOT A PERFECT COMPANY'

As far as some of the company's customers are concerned, Levi's has been a little too nice to its competition for the past few years. W. Barger Tygart, J.C. Penney Co.'s top merchandiser, finally has his wrinkle-free lockers. But he had been clamoring for them for a year while Haggard Apparel Co. and Farah Manufacturing Co. soaked up sales in the hottest segment of the men's pants business. "They don't have the flexibility" to move fast on fashion trends, Tygart gripes. Levi's admits that it already has lost at least \$200 million in sales by being slow into the wrinkle-free market. This year, the missed opportunity will contribute to Levi's first profit decline since 1988.

It has been a long time since retailers have been happy with Levi's customer support. Good thing the company offers high-quality clothes and a great brand name. "If you weren't Levi's," an executive at California's Mervyn's department stores once told the company, "you'd be gone." Tygart notes that Levi's might take 25 to 30 days just to replenish a standard lot of pants; Haggard or Farah do it in 10. "That's 15 or 20 days when all we're selling is the competing product," Tygart says.

Such problems raise the question of whether Levi's emphasis on values is distracting. Haas insists that is not the case. Levi's, he argues, allowed its product development and customer service in the U.S. to slip because the company had been struggling to keep up with heady growth at home and explosive growth overseas. "We're not a perfect company," he says. "We could be doing a better job in customer service."

Haas believes the problems would be worse if it weren't for the company's free exchange of ideas. "If anything," he says, "I think our values help address the problems because we get more two-way communication." Levi's is counting on communication more than ever as it moves toward a solution: This summer it

is heading full bore into a \$500 million effort to remake its product-development and distribution systems. Warehouses will be relocated, computer systems will be overhauled, employees will be uprooted—and some of them may lose their jobs. Levi's executives acknowledge this will test the values strategy. "An environment of uncertainty produces a lot of fear," says one. "It's easy to regress to old behaviors in a situation like that."

Not surprisingly, Levi's whole approach to the reengineering is uniquely, well, aspirational. More than 6,000 of the company's 36,000 employees were asked to provide advice on what Levi's

climber's rope. "It allows individuals to take risks that they couldn't take if they weren't bound together by a common understanding," he says.

## 'I'M NOT A 35-YEAR-OLD WOMAN'

A diverse workforce, unafraid to volunteer idiosyncratic ideas and opinions, leads to better marketing decisions, insists Daniel M. Chew, Levi's director of corporate marketing. That doesn't mean market research and focus groups can be dispensed with. But an employee base that's more reflective of the customer base can make a company hipper and more responsive, Chew believes.

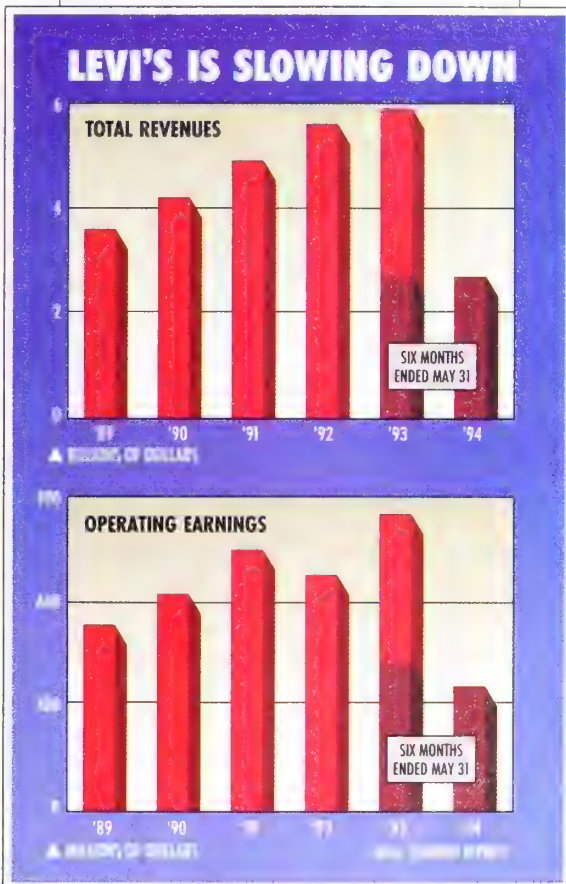
Long gone are the days when everyone wore the same kind of Levi's. Today, the company sells 200 styles of blue jeans alone. There is no way, Haas says, that top management can stay on top of fashion trends without help from deep within the organization. "I'm not a 35-year-old woman," says Haas. "I'm no hip-hopper. I'm not the target customer."

An example of diversity in action: While the gritty, independent hipsters in Levi's "501 Blues" TV ads have drawn young customers like a strong magnet, they didn't click for Levi's Hispanic employees and customers. "Why is that guy walking down the street alone?" they asked. "Doesn't he have any friends?" Scenes of friends and family would resonate better in their culture, they said, and given that Hispanics buy 50% more Levi's than the average customer, this was important information. So, Levi's launched a fresh series of 501 ads for the Hispanic market that downplayed individuality to emphasize camaraderie instead. Sales in the Hispanic community have been booming.

But even at Levi's, diversity at the top is a troublesome goal.

Haas's executive management committee is composed of seven middle-aged white men and one middle-aged white woman. While Haas openly recognizes the disparity between word and deed at the upper echelon, he explains that building talent takes a long time. Levi's has doubled the percentage of minority managers, to 36%, since Haas became CEO in 1984. Women have climbed from 32% of the management ranks to 54% in the same period. In both cases, Levi's vastly outperforms the average U.S. corporation, according to federal labor statistics.

Louis Kirtman, who is Levi's top black executive, says the company still has work to do, but he's happy with the fact Levi's has moved more than a dozen



should be doing differently. With that in hand, nearly 200 of the company's key managers took over an entire floor of cubicles at headquarters and spent more than a year planning at a cost of \$12 million. The company's Diversity Council, which is a direct link to senior management for groups representing blacks, Asians, Hispanics, gays, and women, also played a role in the decisions made.

The process took much longer and involved far more people than advisers at Andersen Consulting thought wise. But Haas says orienting the organization toward a common goal will prove more efficient in the long run. He sees the Aspiration Statement serving as a moun-



minorities and women into mezzanine-level management slots. A Hispanic man now runs Levi's South American sourcing operation. Women head up Levi's operations in Britain and Mexico. When some of the senior managers in their fifties move on, Kirtman says, "you'll see the real change occur."

Of course, all this talk about the importance of diversity is a thorn in the

who have spent their working lives taking orders.

Salas likes his job, but he's not so sure about the new team system Levi's is introducing in its 27 U.S. sewing plants. Instead of grouping workers by function—all the zipper-sewers in one area, all the belt-loop attachers in another—Levi's has created multitask teams of 20 or 30 workers each. They

teams have undergone one-day let's-go-along sessions with a private consultant. But even that hasn't done the trick. "We're trying to find a more effective way to do it," Alvarez says.

While most Levi's plants are non-union, Levi's gets credit—even from the union leaders it does have—for running some of the safest most worker-friendly factories in an industry notorious for

abuses. "Here, I can get a drink and go to the restroom or get a drink when I need to," says rivet setter Emerio Ponce, who has worked for another apparel maker in El Paso. "I wasn't used to that."

Still, critics charge that Levi's pays a lot more attention to workers and training at headquarters than in the factories. Milton Moskowitz, co-author of *The 100 Best Companies to Work For In America*, dropped Levi's from the list in the most recent edition partly because of what he sees as a double standard. Although Haas has assured, for instance, that the partners and gay employees get health benefits—something that resonates loudest in San Francisco—Levi's has shut down a pants factory in San Antonio in favor of moving the business to low-wage Costa Rica. The decision



side for some white males at Levi's. Several executives say, though not for attribution, that they've heard plenty of white males grumble about feeling "disempowered" as they try to advance within the corporation. Haas doesn't offer such employees much in the way of solace. For those white males "who focus on self-improvement and their contributions, the chances are good," Haas reflects. "We've eliminated the automatic promotions based on the old-boy network."

## 'PEER PRESSURE CAN BE BRUTAL'

Salvador Salas is a long way from the old-boy network. Fingertips wrapped in green adhesive tape to prevent cuts and scratches, Salas sews blue-jean waistbands all day at the nonunion Kastin Street factory in El Paso. If Haas's idealism is running into reality when it comes to white male egos in the executive suite, consider the factory floor. Empowerment and teamwork can be alien and uncomfortable concepts for those

## IN BANGLADESH LEVI'S PAID TUITION FOR A CONTRACTOR'S UNDERAGE WORKERS

are responsible for completing individual orders by assembling full pairs of pants, from waist to hem. After 18 months of teamwork in El Paso, turnaround time from order to shipment has

dropped from seven days to three. But the workers aren't all getting along.

Under the team system, a worker's incentive pay is tied to team performance. A poor performer or absent worker affects everybody's paycheck. When someone is perceived to be faking sick days or lollygagging on a sewing machine, tempers flare. Says Salas: "Somebody's fooling around, and somebody else calls attention to that, and the first guy will just flip him off." Supervisor Gracie Cortez says that "it gets tough out there." She finds herself intervening to prevent "big fights." Says plant manager Edward Alvarez: "Peer pressure can be vicious and brutal."

Kastin Street plant workers got two weeks of training before the team system kicked in, part of it devoted to group dynamics. Alvarez allows it "wasn't enough." Since then, 4 of 39

idled 1,100 workers.

Levi's President Thomas W. Tushnet says the company simply had no choice. The San Antonio plant made Dockers, which require twice the labor content of blue jeans. Levi's had to move to a low-wage country to compete on price in what has become a brutal market for casual all-cotton slacks. Other companies make similar decisions every day. But because of Levi's self-conscious reputation as an employer who cares, it opens itself up to plenty of criticism.

Haas's standard reply is that guaranteed employment is not a part of Levi's values system. Such a pledge would be "unwise and dishonest," he says. Still, as the restructuring program goes forward, more dislocations and layoffs are likely. When they come, Bob Haas will have a lot more explaining to do.

## 'WE DON'T SUPPORT CHILD LABOR'

The simple truth is, living up to a values system as comprehensive as Levi's is hard. It takes hours and hours of work. Today, near the Levi's contractor in Dhaka, Bangladesh, you can see young girls in pigtails, clutching textbooks to their



red-and-white school uniforms as they file into class. But not long ago, these same girls—11, 12, 13 years old—toiled full-time as seamstresses, earning \$384 a month sewing Dockers casual pants.

In 1992, to square its international sourcing practices with its own ethical code, Levi's began cracking down on child-labor violations by enforcing International Labor Organization standards that bar employment of children under the age of 14. Two Bangladeshi contrac-

tors admitted to Levi's that they hired children and agreed to fire them.

They also argued to Levi's officials, however, that the girls and boys provided their families' sole economic support—most of them were the oldest children in large, single-parent families. "We don't support child labor," says Robert H. Dunn, Levi's corporate-communications and community-affairs chief. "But our intention is not to have a devastating effect on families."

Levi's could have ignored its code or it could have canned the kids and forgotten about them. Instead, it worked out a compromise with the contractors: If they continued to pay wages and agreed to hire the children back when they turned 14, Levi's would send them to school and foot the bill for uniforms, books, and tuition.

The deal sounds expensive all the way around. But between the two, Levi's and its contractor have spent just a few

## A MILD-MANNERED MAVERICK PUTS HIS BRAND ON LEVI'S

**B**ob Haas is not what you would call a firebrand. The 52-year-old executive doesn't fill up the room with his charisma. His mild manner, his deferential bearing, even his tall, gangly frame make him eminently approachable. He hardly seems the type to instigate broad cultural change within a major American corporation.

Walter A. Haas Jr., in fact, figured his cerebral son would more likely become a college professor than join the family business. And oftentimes, the younger Haas's philosophical management approach does have the whiff of academe. A favorite tutorial is on egoless leadership: "The notion of the CEO as hero, as all-wise, as having all the answers" is sorely outmoded, Haas says. "I was raised on two principles: First, it's important to be modest and humble. Second, let actions speak for you, rather than tell people what they should do."

Even Haas admits his family ties lend special import to both his actions and his words. "I'm not so naive as to believe my word is valued equally with the word of any other person in this company," he says. But the Haas scion also brings to the CEO office a long, liberal tradition of inclusionary management and corporate responsibility. His grandfather, Walter Sr., who married into the Levi Strauss family, offered English and citizenship classes to factory workers in the 1920s. His father and his uncle Peter, who ran Levi's from the 1940s to the 1970s, were among the first to integrate factories in the South.

**BOUNTIFUL CROP.** Haas recalls frequent dinner table discussions during which his father would pointedly celebrate an immigrant janitor or a hardworking warehouseman. "He made clear they were little in stature but giant in their capabilities," Haas says. Bob began to test his own voice on matters of equality and empowerment at the University of California at Berkeley. As the

valedictorian of the class of 1964, Haas drew a front-page headline in the *San Francisco Examiner*: "A Student Scolds UC at Rites." He chided the institution for being "too impersonal" and his professors for being "remote and unapproachable."

Haas joined the Peace Corps after college but felt even that organization was sometimes too detached. In the Ivory Coast, Haas says, he watched foreign-aid workers from the U.S. and



Western Europe teach the native population everything from English to auto mechanics in air-conditioned classrooms. "It was never clear to me they made much of a difference," he says. A group of Taiwanese, however, said nothing to anyone while planting a couple acres with rice to produce a bountiful crop. The local people silently observed the Taiwanese technique and ended up adopting it. "That's the approach we're taking," Haas says. "We're letting people figure out for

themselves what it is they want. If it's important to them, they'll plant rice on their own."

From Africa, Haas went to Harvard University to earn an MBA and then served as a White House Fellow in the Johnson Administration. In 1969, he moved back to San Francisco as a McKinsey & Co. consultant, where he set himself apart for being outspoken with clients on such topics as the environment. In 1973, at the age of 31, he decided to join the family business. A year later, he married Colleen Gershon, who was an attorney for the Black Panther Party when they met.

By the time Haas became Levi's CEO in 1984, the company had become bloated and bureaucratic. Its rich cash flow made it prime takeover bait. Instead of becoming a target, Haas decided to saddle the company with \$1.6 billion in debt and take it private in a 1985 leveraged buyout. The high-risk move required him to ax 6,000 jobs while closing 26 plants. But it also allowed him to

put in place his idealistic management architecture. Since then, Levi's profits have shaved the debt.

Haas, who lives near San Francisco with Colleen and their 15-year-old daughter, Elise, doesn't

seem bothered by the paradox he embodies: His democratic approach might be possible only because its prime proponent is a dynastic prince whose family controls 94% of the company. "It's difficult to bring these ideas into any company," notes Levi's President Thomas W. Tusher. "I don't know that another company would have given him the opportunity." To Bob Haas, what matters is that he make the most of the opportunity he has been given.

By Russell Mitchell in San Francisco



thousand dollars. Besides, says Haas, such actions pay dividends in terms of brand image and corporate reputation. Just ask such companies as Wal-Mart Stores and Nike, which have come under fire for their Third World subcontracting practices. "In today's world, a TV exposé on working conditions can undo years of effort to build brand loyalty," says Haas. "Why squander your investment when, with commitment, reputational problems can be prevented?"

#### 'IT'S A MATTER OF LEADERSHIP'

Bob Haas doesn't have to meet with stock analysts. He feels no pressure from Wall Street for neat, predictable quarterly results. Even the banks that funded his leveraged buyout are off his back: The company's mammoth cash flow has shaved debt to 4.6% of total capital. Would the company behave any differently if it were publicly traded? "It would take a lot more fortitude on the part of Levi's executives," Haas says. But he insists that "this is not a matter of structure, it's a matter of leadership."

Public company or not, Levi's experiment in corporate culture will attract attention and invite criticism. Noted apparel consultant Alan G. Millstein speaks for the many cynics when he says: "The company has the P.C. mindset. The Haases think they talk to God."

Now that enough operational problems have cropped up to slow financial results, Haas has given his critics some ammunition they didn't have before. But he goes out of his way to say that you can't abandon management-science efforts simply because things get tough. Too many managers, he feels, use that as an excuse to hide their "resistance to the idea that the soft sides and hard sides of management can be combined."

It's not so much that they can't be combined but that they may have unintended consequences when they are. Dealing with the surprising, often contradictory results of managing by values may be a manager's toughest task. Many managers are likely to ask themselves: Is it worth the trouble? Many, perhaps, would say "no."

"People are comfortable with the traditional ways of doing business," Haas says. "They might say, 'We aspire to do the things you've done, but we don't have time for it, the stock market wouldn't value it, or we're not as prosperous as Levi Strauss is.'" When it comes to managing by values, Haas has a ways to go to meet his own exacting standard. But he can't be faulted for bowing to what's comfortable.

*By Russell Mitchell in San Francisco, with Michael Oneal in New York and bureau reports*

# Science & Technology

## PHARMACEUTICALS

## WHO WILL STOP THE MUTANT MICROBES?

Drugmakers are scrambling for new weapons to kill "superbugs"

**T**o scientists and doctors who thought they had annihilated such bacterial killers as tuberculosis and staph infections a decade ago with antibiotics, what's happening in hospitals today is more frightening than a late-night horror flick: The bugs are back. After 40 years of aggressively pushing antibiotics, doctors are now confronting bacteria that have mutated defenses against drugs. Of the 2 million patients who get infections in hospitals each year, up to 60% are struck by microbes that have become resistant to drugs.

The specter of patients dying from once treatable infections, plus a promise from the Food & Drug Administration to fast-track new antibiotics through the regulatory morass, has created a golden opportunity in the \$20 billion worldwide antibiotics business. Such giants as Glaxo, Merck, Schering-Plough, and SmithKline Beecham are scrambling to bolster their antibiotics research and development, and they're searching the labs of small companies for prospects. In fact, large drugmakers are likely to come up with the first new drugs aimed at these "superbugs," created by adapting chemicals in their existing libraries to work against the resistant bugs—if only temporarily.

Yet in the long run, scientists are convinced that the best way to foil drug-resistant bugs is with medicines

"that work through new mechanisms of action," says Keith A. Bostian, a former Merck & Co. R&D manager who is now chief operating officer of two-year-old drugmaker Microcide Pharmaceuticals Inc. The Mountain View (Calif.) company is one of a few working on gene-based schemes to outwit microbes. "Chemists have gone as far as they could incrementally refining these agents" and instead must mine biotechnology and genetics for new strategies, he says. Indeed, the future for antibiotics is "coming more and more from biology," says Steve M. Elliston, president of Micrologix Biotech Inc.

**NEW ATTACKS.** Some of the most intriguing of these approaches are coming from Micrologix, Agennix, Magainin, Xoma, and a handful of other small companies. They are combining high-tech medicine and a witches' brew of proteins from bees, sharks, cows, and even humans to create new weapons. These agents combat bacteria very differently from existing drugs—and that's what gives them so much promise.

Of the 30 new antibiotics the established drug industry claims it has on the runway today, most are variations on existing drugs, which work through several narrow mechanisms. But bacteria replicate at blinding speed—some times doubling in a few minutes. The process can produce genetic mutations

## FIGHTING RESISTANT BUGS

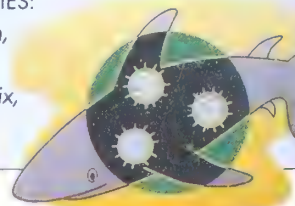
### THE PROBLEM

*Widespread and inappropriate use of antibiotics has helped disease-causing bacteria develop resistance. Once bacteria become resistant, they transfer that ability to other strains. Since most current antibiotics come from molds and bugs in the soil, they work in similar ways. To overcome resistance, doctors need new drugs that outfox bugs differently.*

### THREE POTENTIAL SOLUTIONS

**1 NATURAL PROTEINS** Humans, cows, frogs, sharks, and even insects all carry antimicrobial proteins in their bodies. Scientists are trying to gene-splice promising candidates to use as antibiotics.

**COMPANIES:**  
Magainin,  
Xoma,  
Micrologix,  
Agennix





that give bugs defenses against a given drug—making an enzyme that splits the penicillin molecule so it becomes harmless, for example. The bugs can then quickly pass on their genetic armor. Since most antibiotics are derived from cousins of bacteria, such as soil molds, it's probably easier for bacteria to develop a genetic defense.

Proteins, however, attack bugs in new ways. Many of them are cationic, or positively charged molecules, while most infectious bacteria are negatively charged. The electrical attraction pulls cationic proteins to the surface of bacterial cells where they force their way inside—in effect, busting the cells apart.

Michael Zasloff, founder of Magainin Pharmaceuticals Inc., observed in the late 1980s that frogs with open wounds could live in dirty water without developing infections. He called the proteins responsible "magainins," after the Hebrew word for shield, and later found similar chemicals in sharks. The company has since synthesized dozens of related compounds in the lab that show "as much activity against resistant strains as they do against susceptible strains," says CEO Jay Moorin. Magainin soon hopes to begin testing one of them on infected diabetic leg ulcers.

The reason mother's milk protects babies may make one of its proteins a good bacteria fighter. Houston-based Agennix is gene-splicing the milk protein lactoferrin, which suppresses harmful bacteria in babies' stomachs, and is searching for virulent bacteria against which it might be a good drug. Bacteria need iron to convert nutrients to energy, but this natural chemical appears to absorb excess iron, thus stifling bacterial growth. For bugs to mount a defense, notes Agennix CEO Roger

D. Wyatt, they would need to create a new metabolism. That's "a lot more than a single-gene adaptation" and probably impossible, he adds. Similarly, Applied Microbiology Inc. has found that bacteriocins, derived from a milk protein, cause pores to form in a bacterium's cell membranes. The Brooklyn (N.Y.) company is working with Calgon Vestal Laboratories, a Merck subsidiary, to develop bacteriocins against impetigo and with As-

their use to topical creams, nasal sprays, or injectable forms. That's why drugmakers have concentrated on the more practical, so-called small molecules, or synthetic chemicals that can be given in pills.

Vaccines, however, may offer advantages over any drugs. By using the body's immune system to prevent disease, these remedies don't have resistance problems. To deliver a novel one-two punch to bacteria,

UniVax Biologics Inc. in Rockville, Md., is testing a vaccine on people against some dangerous forms of staph that could help patients at risk develop antibodies and ward them off. Next year, it plans to start testing a therapeutic treatment developed by inoculating healthy volunteers with the same vaccine, then harvesting the antibodies they make. Those antibodies would then be used to treat patients suffering from the infections. OraVax, meanwhile, hopes to develop nose or ear drops or other topical remedies that protect like vaccines by stimulating immune cells on mucous tissues, such as nasal passages, which are common entry points for bacteria.

The ultimate defense against bacteria may well lie in the genes that transform them into killers. Microcide and Virus Research Institute in Cambridge, Mass., are on the cutting edge of the search for these "virulence" genes. Such genes turn on processes that are used only when bacteria invade and infect the body—when a bug attaches to the surface of the lining of the lung, say. VRI is first pinpointing these genes, then it will find chemicals that sabotage them. Disarming bacteria instead of killing them could avoid what now happens with antibiotics—a Darwinian survival of the fittest that results, in this case, in resistant bugs. The approach is so intriguing that several drugmakers, including Glaxo, are negotiating potential collaborations.

It's far too early to predict which of these new approaches will pan out. Magainin already suffered a stock-deflating setback this spring when one of its proteins failed to show much benefit against impetigo, although even competitors contend that magainins still have enormous potential. Nor is there any guarantee that the startups can raise the tens of millions of dollars they'll need to bring drugs to market. But as patients continue to die from infections that were once treatable, it's hard to imagine drugmakers backing off this quest until better bug killers are in hand.

By Joan O'C. Hamilton in San Francisco

**MICROCIDE'S BOSTIAN SAYS CHEMISTS HAVE GONE "AS FAR AS THEY COULD" WITH EXISTING ANTIBIOTICS. HIS COMPANY IS DEVELOPING GENE-BASED WEAPONS**



tra Merck to create a drug against the bacteria that cause peptic ulcers.

Still other proteins seem to turbocharge the power of existing antibiotics. Micrologix, which uses cationic peptides created by fusing proteins from moths and honey-bee venom, and Xoma, working with a chemical called BPI, which is isolated from humans, have found that in lab tests their products amplify the effect of antibiotics on bacterial infections—for reasons scientists can't explain.

**ONE-TWO PUNCH.** Exploiting these natural molecules won't be easy. Typically, they are proteins, which can't be given orally because they are chewed up by enzymes in the gut. That could limit

## SCIENTIFIC BREAKTHROUGHS

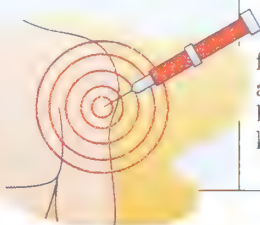
figuring out how bacteria infect healthy cells and reproduce, researchers create copies of these genetic mechanisms, hoping to find new ways to short-circuit the process. They're creating huge libraries of chemicals to thus upping the odds of hitting a target drug.

COMPANIES: Viral Research; Microcide

## 3 BOOSTING THE BODY'S DEFENSES

By bucking up a patient's immune system with a vaccine, some companies hope to prevent infections or keep them in check. Others are looking for ways of treating mucous membranes to try to stop infectious bacteria from entering the body to begin with.

COMPANIES:  
UniVax,  
OraVax





EDITED BY PETER COY

## A STAR WARS SPIN-OFF IS TAKING AIM AT SLUDGE



**D**uring the Star Wars era, U.S. and Soviet scientists separately worked on a technology known as pulsed power that would allow weapons to store up energy and then discharge it in intense, microsecond bursts. Now, pulsed power has a more down-to-earth use: Scientific Utilization Inc. in Decatur, Ala., is developing a

Russian-invented system that removes water from sewage sludge and kills pathogens in water. This fall, the system will be tested as an enhancement for smokestack electrostatic precipitators, and it may eventually be used to destroy chemical weapons. To dewater sludge, a brief, intense electric arc creates a shock wave in the liquid that causes suspended particles to form clumps.

The system is based on an invention by Igor Grekhov, a director of A. F. Ioffe Physical-Technical Institute in St. Petersburg. It delivers more power and lasts longer than any American device, says Stephen Levy, a project director for the Tennessee Valley Authority and a former head of the U.S. Army's pulsed-power program.

## WILL THIS FERTILIZER MAKE CROPS GLOW—OR JUST GROW?

**S**ome see Florida's chalky mountains of phosphogypsum as a hazardous-waste eyesore. University of Florida researchers see 600 million tons of cheap fertilizer. Phosphogypsum, a by-product of phosphate fertilizer production, contains minute amounts of radium-226, which can decay to radon gas. Environmental groups are trying to pressure the Environmental Protection Agency to place stricter limits on its use.

But a new University of Florida study may embolden the EPA to ease present restrictions. It showed a 25% increase in crop yield when phosphogypsum, which contains calcium and sulphur, was used on forage grasses. A three-year study found that radon levels remained normal even when phosphogypsum was applied in larger-than-necessary quantities. Another benefit: Sulphate in phosphogypsum can bind to aluminum in soil, preventing crops from absorbing the toxic metal. Similar studies are being conducted in the Philippines and are expected to begin in Brazil and Turkey.

## NATURAL GAS GRABS THE LEAD IN THE CLEAN-AIR STAKES

**A**lternative fuels are key to cutting pollution—especially in the smoggy Los Angeles area, where 70% of dirty air is caused by vehicle exhaust. So, two years ago, government and industry mounted the \$6.6 million South Coast Alternative Fuels Demonstration Project to test five cleaner fuels against regular gasoline in 111 Federal Express Corp. vans.

The early leader: compressed natural gas. On the whole, it

outperformed the other fuels in emissions of carbon monoxide, nitrogen oxides, and nonmethane organic gases. In carbon monoxide, for instance, compressed natural gas produced emissions at least 65% lower than those of regular gasoline. Methanol's carbon monoxide emissions were only 37% lower than gasoline's, and those of reformulated gas were at best 17% lower. But natural-gas producers shouldn't celebrate just yet. Battelle Memorial Institute, which is managing the study, will conduct two more evaluations of emissions and is also judging the fuels based on other criteria, including safety, fuel economy, and reliability. Final results won't be tallied until 1995.

## DESPERATELY SEEKING A DISCREET HIGH-TECH MATCHMAKER

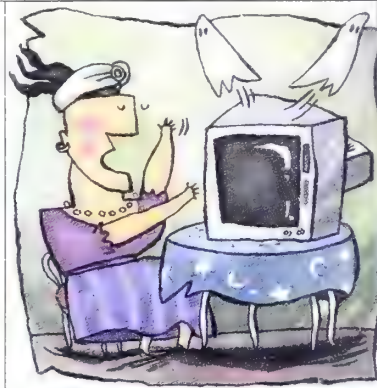
**W**anted: An honest broker to manage delicate technology partnerships between U.S. and Japanese researchers. Compensation: \$1 million a year for two years. The offer is being made by directors of the U.S.-Japan Joint Optoelectronic Project. The organization, sponsored by both governments, is seeking to promote cooperation between the nations on a future generation of computers that use optical or optoelectronic components. Under the two-year experiment, one broker in each nation will pair up researchers who have good ideas for computer designs with other researchers who have the necessary components. The Japanese broker has already been selected: It's the Optoelectronic Industry & Technology Development Assn. Now, project directors are seeking a U.S. based counterpart, probably a company or university. The goal is to pick one by October.

The broker's job is sensitive because neither nation wants to let the other learn its secrets in optoelectronics. Judson C. French, co-chairman of the project's joint management committee, says all exchanges of information between designers and component suppliers must be done by the broker or in the broker's presence. Says French: "It's an experiment to see if we can cooperate in a competitive, high-tech area."

## TV GHOSTS? WHO YA GONNA CALL? PHILIPS, MAYBE

**T**elevision stations are getting ready to zap ghosts. The shadows are produced when a TV receiver picks up an echo that arrives an instant after the main signal. To wipe out ghosts, broadcasters and cable operators can send a reference signal in the intervals between picture frames. A chip in the TV or a set-top box will detect ghosts in the reference signal and thus pinpoint and zap ghosts in the picture itself.

Ghost-busting should be good business for Philips Electronics, whose reference signal was picked as the U.S. standard. About a third of U.S. broadcasters have spent from \$300 to \$4,000 apiece for gear to transmit reference signals. Field tests are expected later this year in Europe, Brazil, and Australia. Japan and South Korea already use older, analog reference signals. Set-top ghost cancelers that work off the signals will go on sale from Philips next year at less than \$200.





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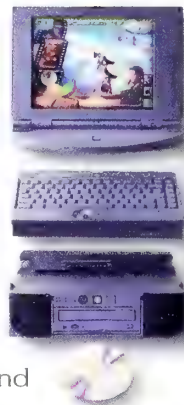
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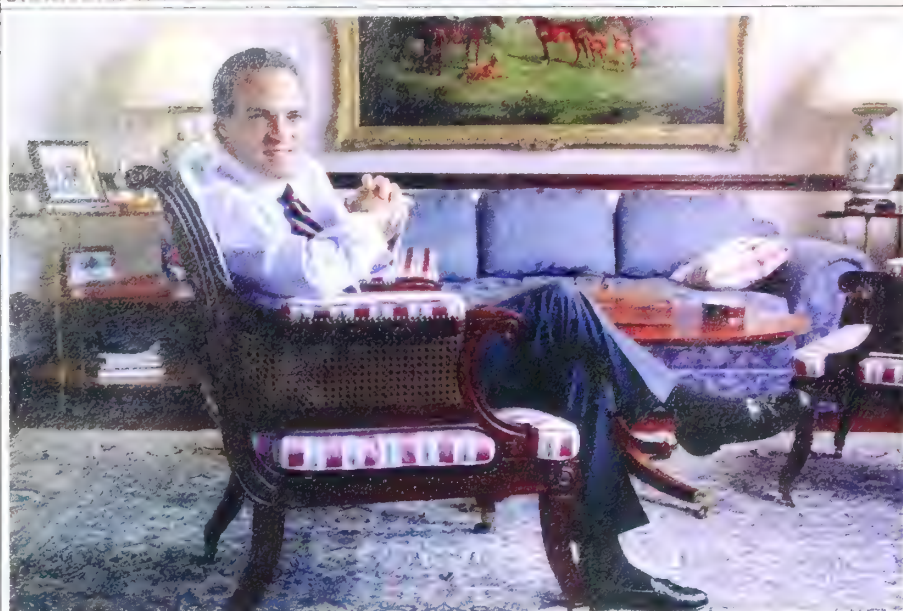
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**KRAVIS' CONUNDRUM: A CLASSIC KKR ACQUISITION IS NOW IN LEGAL LIMBO**

## ANOTHER EMBARRASSMENT FOR KKR?

It might lose Walter Industries to former ally Leon Black

It's a familiar tale: A fixture of Corporate America works for years to put its house in order. Then, a crafty dealmaker from Wall Street arrives, threatening to steal the company for a pittance.

The script may be familiar, but the casting is decidedly against type. The beleaguered voice of entrenched management is none other than that of Kohlberg Kravis Roberts & Co., which once feasted at the top of the Wall Street food chain. And Henry R. Kravis' adversary is no stranger: He's Leon D. Black, head of

Apollo Advisors LP. Black, 43, was a one-time ally of KKR who helped arrange financing for many of its deals.

KKR and Black are entering the final months of a pitched battle for control of Walter Industries Inc., the Tampa-based conglomerate KKR acquired in 1987 only to see it seek refuge in bankruptcy two years later. On July 13, Black and Lehman Brothers Inc., Walter's biggest bondholders, formally presented a plan to end Walter's five-year sojourn in Chapter 11. If accepted by the bankruptcy court, the

proposal could let Black wrest control of Walter Industries from KKR, eliminating KKR's 91% stake.

It's not just money at stake. If Black manages to outfox KKR, it would be another blow to the legendary leverage buyout firm. KKR's luster has already been dimmed by troubles at its largest holding, RJR Nabisco Inc. "Kravis has been top-of-the-heap for so long, and to have an upstart like Leon Black outmaneuver him has got to be a source of chagrin," says Harvard B-school investment banking professor Samuel L. Hayes III. "This is the pits. It doesn't get any worse than this." KKR, Black, and Lehman won't comment.

**OUTRAGED.** Walter Industries wasn't supposed to be KKR's Waterloo. In 1987, the LBO firm acquired Jim Walter Corp., which builds homes, makes building materials, and mines coal, for \$3.1 billion, including debt. Walter's stock had been depressed by nearly \$2 billion in claims against its Celotex Corp. unit, which had manufactured asbestos. KKR figured it could buy the company for a bargain price, sell off the asbestos unit—and its thorny lawsuits—and book a hefty profit. Ironically, Black, then an investment banker at Drexel Burnham Lambert Inc., helped KKR create the junk bonds to finance the LBO. Drexel is said to have received in excess of \$60 million in fees for its efforts. Lehman collected about \$8 million as an adviser to Walter.

But the asbestos claimants went after Walter's deeper pockets, anyway. Their suit created a financial crisis for Walter Industries and KKR. Because of a court-imposed freeze on assets, KKR couldn't sell off Walter's assets to pay down debt. And the litigation so depressed the price of the bonds issued to finance the LBO that it was impossible for KKR to reset interest rates high enough so the bonds would trade above par, as promised to bondholders. Walter had little choice but to take refuge in bankruptcy.

### ANATOMY OF A TROUBLED DEAL

**AUGUST, 1987** KKR announces a \$3.1 billion buyout of Jim Walter Corp.

**APRIL, 1988** KKR sells off the company's Celotex subsidiary, which faces billions in asbestos claims. Asbestos claimants later sue the parent anyway.

**DECEMBER, 1989** With asbestos suit pending, KKR can't sell

assets to raise cash and pay debt or persuade creditors to reset interest rate on company's bonds. Company files for Chapter 11.

**1989-91** Lehman Brothers and Leon Black begin acquiring debt, becoming the largest unsecured creditors. They later propose settling asbestos claims, despite KKR objections.

**APRIL, 1994** Judge rules company not liable for asbestos claims. Asbestos litigants appeal.

**JULY, 1994** Dueling plans are offered to bail Walter out of bankruptcy. KKR vows to fight asbestos appeals and retain majority stake. Black's group proposes settlement, liquidating KKR's holding if it objects.

DATA: COMPANY REPORTS, BANKRUPTCY COURT FILINGS



**BLACK HELPED SET UP THE ORIGINAL FUNDING FOR KKR**



Now, almost five years later, Black and Lehman have outraged KKR by offering a plan to take control of Walter. Together, they have acquired \$429 million worth of Walter bonds, mostly at deep discounts that sources say ran as low as 20¢ on the dollar. As the largest creditors, they propose settling with asbestos claimants for \$525 million, finally removing the legal cloud over the company. The money would come from about \$600 million in interest that bondholders say Walter, while in Chapter 11, still owes because it was solvent on an operating basis. Then Black and Lehman propose swapping their existing bonds for a combination of new debt and voting control of the company. KKR's stake would be wiped out. Not a bad deal for Black and Lehman, since Walter's operations remain healthy. With 1994 revenues expected to be about \$1.3 billion, creditors value it at more than \$2.5 billion.

But KKR is battling back. It is offering a dueling reorganization plan that would keep Walter in Chapter 11 until the asbestos claims have been litigated and appeals exhausted. Bankruptcy Judge Alexander L. Paskay ruled in April that Walter isn't liable for any asbestos claims. The claimants have since appealed, but KKR contends Walter will win again and that bondholders aren't owed any interest after all. KKR's plan would give the firm a controlling 70% stake in Walter.

**SOLE SUPPORTER.** Black and Lehman's plan already has the support of every major creditor. Bondholders are incensed over what they regard as a five-year interest-free loan to KKR. And they also fear asbestos claimants could ultimately win. So far, KKR's only supporter is Walter's management, which owns 9% of the company. Bank lenders back both plans. Both plans will be mailed on Aug. 5 for a vote. The tally will be in by Sept. 23.

Since it already has the backing of the more-powerful creditors, the Black/Lehman plan will likely be approved overwhelmingly. If Judge Paskay ultimately approves the proposal after holding a separate hearing on the bondholder interest issue, KKR has only one remaining out. The firm can try to convince the judge that the plan is not "fair and equitable" because it would strip Walter shareholders, most notably KKR, of all their equity to pay off the asbestos litigants. The settlement "is an outrageous sum to pay for what the judge has said is worth zero," says Michael Cramers, the company's attorney. KKR also argues that Black and Lehman have little right to complain, since both acquired their Walter bonds at only a fraction of face value.

Of course, KKR doesn't have much actual cash invested in Walter Industries, either. Its original investment was about \$145 million. KKR itself put up only about

\$1.5 million of that; the rest came from the state pension funds, college endowments, and other institutions that invested in KKR's 1986 fund. Shortly after the deal was completed, KKR extracted nearly \$35 million in investment banking fees from the company and wrote down its investors' stake to zero in 1989.

If KKR can defeat the plan put forward by Black and Lehman, avoid as-

bestos liability through the appeal process, and deny the contested interest payments, one source says KKR's equity in Walter could be worth more than \$600 million. Any amount KKR is able to salvage from its unhappy Walter experience will come as an unexpected boon to Henry Kravis—and his investors.

*By Elizabeth Lesly in New York and Gail DeGeorge in Tampa*

## JIM WALTER HOMEOWNERS RAISE THE ROOF

In 1985, when newlyweds Ramon and Elena Vidal were earning little and living with his mother, the saleswoman from Jim Walter Homes Inc. made an irresistible offer: a \$26,000 home of their own with no money down and easy financing, to be built on a lot the Vidals owned in San Diego, Tex.

They may be wishing they still lived with Ramon's mother. The foundation of the Vidals' house began sinking al-

say their initial complaints met with no response. A company spokesman acknowledges that some houses may need repairs, but says Walter has "substantially" lived up to its construction contracts and blames some of the problems on poor maintenance. He notes that out of nearly 84,000 active mortgages, the company faces only 133 other legal claims of construction defects.

But at the urging of their attorney, Hector Gonzalez, the Vidals and hundreds of other Jim Walter homeowners haven't made a monthly mortgage payment in four years. Those payments should be going to Mid-State, and the delinquent mortgages could be of concern to Walter Industries' creditors as the company struggles to get out of Chapter 11. The mortgages in Mid-States' portfolio are the company's largest asset. If they were bundled and sold to investors as mortgage-backed securities, they would be worth about \$850 million, creditors say.

The company dismisses suggestions that homeowner dissatisfaction could spread and erode the value of mortgage-backed securities the company might issue in the future. It says its mortgage-delinquency rate has been almost unchanged at 4.5% since 1988. But Gonzalez says he has 40 more cases ready to go and notes that Jim Walter Homes has had a long history of legal trouble. In the late 1970s, without admitting wrongdoing, Walter settled two separate suits involving homeowners in Mississippi and Kentucky.

Gonzalez himself sued the company twice in the 1980s, netting settlements totaling \$6.4 million. "Jim Walter Homes has built shoddy houses all over the state," he says. The way he sees it, unhappy Jim Walter customers will keep him busy for quite some time.

*By Stephanie Anderson Forest in San Diego, Tex.*



**A JACK KEEPS THE VIDAL HOME FROM CAVING IN**

most immediately. Now, the house is slipping off its concrete base, and a jack supports the center to keep it from caving in. "It looks like we made a very bad investment," says Elena.

**ERODING VALUE?** The Vidals and some 400 other unhappy Jim Walter homeowners in South Texas banded together and sued Mid-State Homes Inc., which holds the mortgages on most of the homes built by Jim Walter Homes, the sixth-largest homebuilder in the country. Mid-State, along with Jim Walter, is a subsidiary of Walter Industries Inc. And since Kohlberg Kravis Roberts & Co. acquired Walter in 1987, the irate Texans sued Henry R. Kravis for good measure. In the suit, they allege fraud and deceptive trading practices, among other charges. Walter Industries denies any wrongdoing. Kravis and Kravis wouldn't comment.

The Vidals and other homeowners



## ALCOA WANTS TO TAKE ITS SHOW ON THE ROAD

It's pushing auto makers to splurge on aluminum



CHIEF EXECUTIVE O'NEILL HAS A POWERFUL ALLY: FUEL-CONSCIOUS FEDS

**P**arked at the curb, the gleaming silver Audi A8 looks much like other luxury sedans. Walk up and give it a knock. Feels solid. Close the door, and it thumps with Mercedes-like authority. But beneath the buffed finish is a revolution in automobile construction. You won't find a steel structure, the mainstay of car design for the past 90 years. Instead, there's a space-age tubular web of aluminum.

This sleek Audi represents a bold gamble by Aluminum Co. of America to restore some luster—both to aluminum and its own sagging returns. The metal's price has tumbled 40% over the past five years, and CEO Paul H. O'Neill is on a mission to persuade auto makers worldwide of the benefits of lightweight, fuel-efficient aluminum cars. And he's attracting some interest. In addition to Audi, Alcoa has a project with Chrysler Corp. to develop the Prowler, a limited-production aluminum hot rod. Alcoa says it has projects under way with other carmakers, but it won't disclose details.

Twenty years ago, Alcoa helped expand aluminum's market by leading the industry's grab of the beverage-can market from Big Steel. But it's not certain that this latest bid will be as successful.

The steel industry is already producing ever lighter gauges of steel. And then there's aluminum's cost—three times that of steel. The aluminum Audi, made largely by hand, sells for \$46,550. But Audi, without disclosing figures, admits that's below its costs. Even though Alcoa is looking for a technology that would bring the cost of aluminum cars in line with that of steel ones, O'Neill says, "we may have to promise it before we know how to do it."

O'Neill, 58, who joined Alcoa as CEO

in 1987 after serving as president of International Paper Co., is making those promises, since he needs new customers. Russian aluminum producers have been flooding the market for the past three years to raise hard currency and offset the loss of defense contracts at home. The result: Aluminum prices sank to record lows in 1993. Excluding accounting changes, Alcoa's net income plunged 79%, to \$4.8 million, in 1993, as its sales fell 5%, to \$9 billion.

In the spring, major aluminum-producing nations, including Russia, drew up an OPEC-style accord to limit production. That has helped push prices up 20% this year. Analyst Thomas M. Van Leeuwen of CS First Boston estimates that Alcoa's profits—which fluctuate wildly with aluminum prices—could rebound to \$132 million this year as revenues rise 7%, to \$9.7 billion. Even so, the aluminum market is notoriously cyclical, and prices could decline again.

**BILLIONS INVESTED.** By then, O'Neill hopes to have Alcoa entrenched in the auto business. Aluminum's biggest allies in this fight are Washington regulators. When mileage standards were imposed in the 1970s, auto makers looked to aluminum parts, which weigh 40% less than steel ones, to lighten cars. Today, the average aluminum content is 200 pounds per vehicle, vs. 50 pounds in the 1960s.

Still, cars account for just 10% of Alcoa's business, while aluminum cans produce 22%. And Alcoa will have a tough time persuading car companies to go on an all-aluminum diet: They have billions invested in equipment that manufactures cars and light trucks by bending and welding steel. They would need to replace it with equipment to form and bond aluminum—machinery that hasn't been invented yet for high-volume production. And switching is expensive. For each pound they save by substituting aluminum for steel, auto makers spend \$1.50 in added raw materials and manu-

facturing costs, according to a recent Massachusetts Institute of Technology study. Small wonder auto makers aren't ecstatic over aluminum. "They come kicking and screaming to the aluminum industry," acknowledges L. Patrick Hasey, president of Alcoa's Aerospace & Commercial Rolled Products Div.

But they do come, if just to be ready in

### ALCOA LOOKS TO AUTOS...

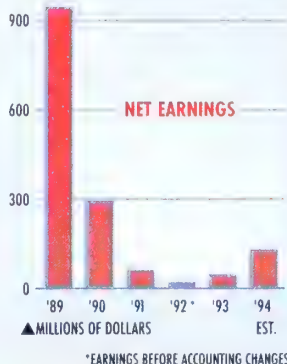
**AUDI A8** In partnership with the German auto maker, Alcoa helped design and manufacture this first prototype of an aluminum car for the European market.

**PROWLER** Chrysler and Alcoa are jointly developing this aluminum car, described as a 1930s-style roadster.

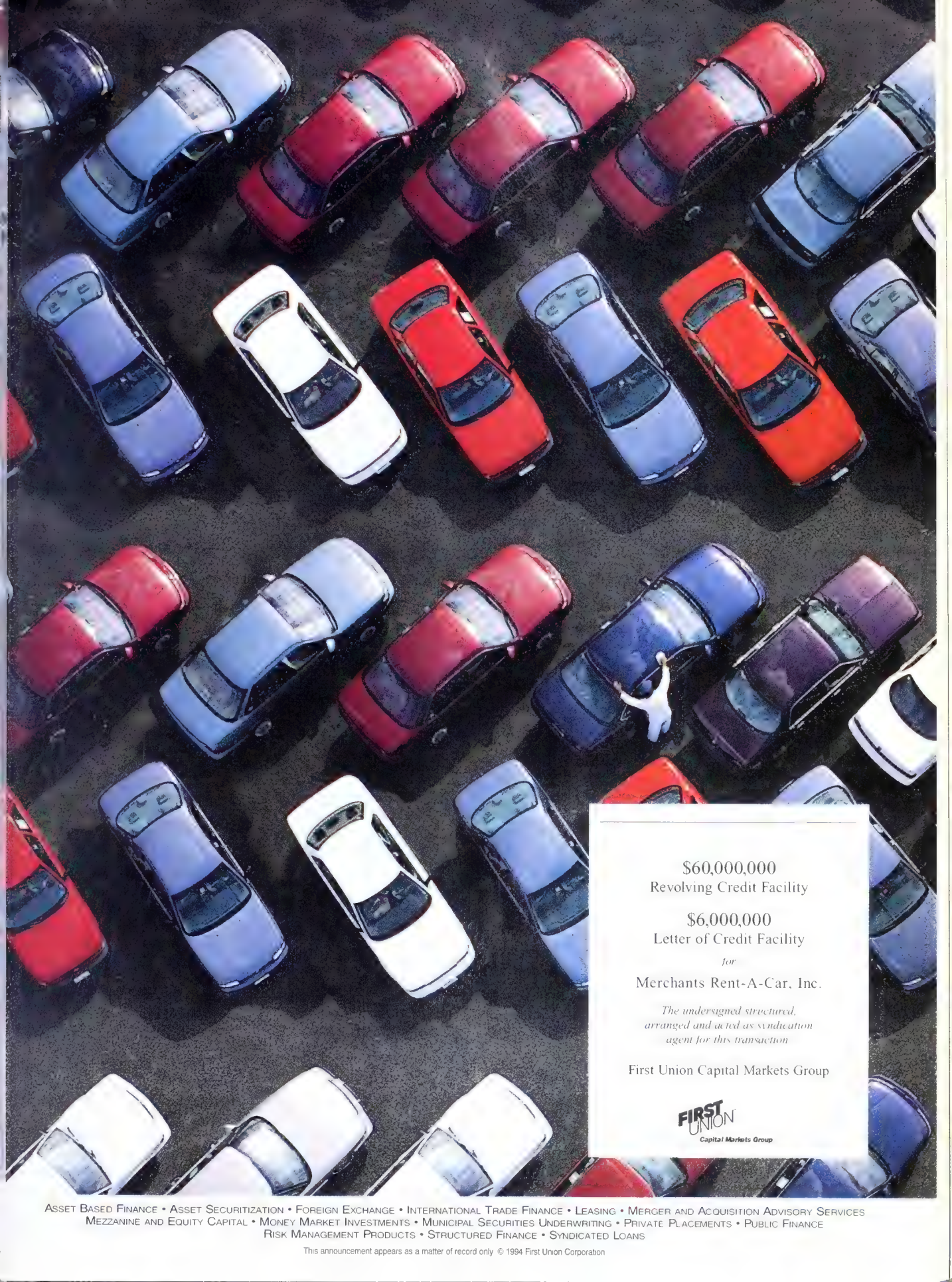
**AUTO PARTS** Expanding lineup of aluminum wheels, engine blocks, and other parts, while perfecting technology to build aluminum cars.

DATA: BUSINESS WEEK, CS FIRST BOSTON

### ...TO REBUILD ITS PROFITS







**\$60,000,000**  
Revolving Credit Facility

**\$6,000,000**  
Letter of Credit Facility

*for*

Merchants Rent-A-Car, Inc.

*The undersigned structured,  
arranged and acted as syndication  
agent for this transaction*

First Union Capital Markets Group



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case of another energy crisis or tougher mileage standards. Ford Motor Co., for one, is testing 40 experimental aluminum Sables it built with Alcan Aluminum Ltd. Honda Motor Co. came out with the sporty aluminum NSX, which it developed with Kobe Steel Ltd.

Alcoa's push to develop aluminum cars has been far more aggressive. In 1991, it got Audi to participate in an aluminum car project by offering to build a \$70 million factory in the German town of Soest. The result: The A8, which went on sale in June, weighs 310 pounds less than comparable cars and gets 10% to 15% better mileage. Still, Alcoa engineers are struggling with production methods to lower costs. Meanwhile, Alcoa and Chrysler are in the middle of developing the Prowler. The No. 3 auto maker has already built some prototype aluminum Neons. But concerned about cost, it has not decided whether to produce the Prowler, an entirely new model.

**RIVETS REQUIRED.** Aluminum cars may never roll off assembly lines until ways are found to build them as cheaply as steel cars. At the Alcoa plant in Germany, workers use castings and extrusions—pieces of aluminum pushed like Play-Doh through variously shaped holes—to brace the aluminum skin. That makes the structure as strong as steel. Still, aluminum doesn't weld easily, so parts have to be riveted and glued together. To cut costs, Alcoa is working on reducing the number of stamped parts used in cars from 250 per vehicle to 100. Alcoa hopes this will help it perfect a manufacturing process to produce niche lines of aluminum cars as cheaply as steel ones in three years. Alcoa expects to be selling \$1 billion worth of aluminum bodies within 10 years. Today, its frame sales total \$50 million.

Even if it solves its technological puzzles, Alcoa faces a livelier steel industry than the sluggish giant it defeated in the can war. Steel companies are already designing low-weight steel vehicles for the Big Three. "We think we can match [aluminum's] weight savings at a cost reduction," says Peter Peterson, marketing strategies and product applications director at U.S. Steel. "Shame on us if we should drop the ball."

O'Neill says he understands the challenges—and he's not about to stake Alcoa's survival solely on cars. That's why he's slashing costs at home while trying to find new markets in fast-growing Asian economies. Still, if Alcoa's big bet on aluminum cars doesn't pay off, O'Neill may have to get used to seeing his profits turn light as a feather whenever aluminum weighs heavily on the market.

*By Stephen Baker in Pittsburgh, with David Woodruff in Detroit and bureau*

# Marketing

BEER

## HEINEKEN'S BATTLE TO STAY TOP BOTTLE

Its turf—the world—is being invaded by big American rivals



**VUURSTEEN: FIGHTING BACK WITH MORE EXPANSION ABROAD**

**T**here's an imaginary tale making the rounds at Heineken's headquarters in Amsterdam these days. Alfred H. Heineken, chairman of his company's supervisory council, meets his counterparts from U.S. rivals Anheuser-Busch and Miller Brewing at a bar. August A. Busch III orders a Budweiser. Jack N. McDonough, CEO of the Milwaukee brewer, asks for a Miller. Freddy, as the 70-year-old Heineken executive is known, waves the bartender off, explaining to his companions: "If you won't order a beer, I won't order a beer either."

Old World snobbery, perhaps. But you can't blame the Heineken crowd for sounding a bit smug. After all, the company's beer is downed by more people in more corners of the globe than any other. It's the No. 1 imported beer in the vast American market. Moreover, its fa-

miliar green bottle sold from Caracas to the Congo—is the world's first truly global brand of beer. The U.S. brewers are still groping for ways to push into overseas markets, but the Dutch brewer planted its green-and-white umbrellas across the world's squares and piazzas more than half a century ago.

But with little or no growth expected at home, the two American giants are shifting their focus to frothy markets in Asia, Latin America, and Europe. That means the big global battle among the top three beer titans is about to begin in earnest. Miller Brewing Co., a unit of Philip Morris Cos., and Anheuser-Busch Cos. are forging alliance

and buying stakes in breweries around the world. Heineken is girding to defend itself against the neophytes with a big push into Asia and Central Europe. It is also scouting for new partners "to expand our growth opportunities," says Chief Executive Karel Vuursteen.

The Americans are still far behind in terms of geographic reach (charts). But with their deep pockets, Anheuser and Miller could make rapid strides in new lands. Admits Vuursteen: "You should never underestimate your competitors. Already, Heineken is far more likely to bump up against troops from Anheuser nearly three times Heineken's size, in places such as China. And Miller may be able to tap into Philip Morris' international marketing savvy.

To gain experience quickly, Miller took a 20% stake in Canada's Molson Brewer



ies last year, while its parent has bought a 7.9% stake in Mexico's No. 2 brewery, FEMSA, which makes Dos Equis. Fast on the heels of that deal, Anheuser snapped up a 17.7% stake in Mexico's largest brewery, Grupo Modelo, famous for Corona. It also acquired a 5% stake in China's Tsingtao Brewery. "Four years ago, Anheuser and Miller weren't on [Heineken's] radar screen," warns a top rival executive. Both now have international strategies and formidable cash flows."

**DUTCH TREAT.** Vuursteen is preparing for the coming battles. In the U.S., Heineken has recently strengthened its position by taking over its long-standing American distributor and installing its own man to run the operation. Aside from low-cal Amstel Light, the Dutch are pushing new products such as Murphy's Irish Stout through their U.S. distribution network. To maintain its hold on the No. 1 spot, Heineken is spending \$40 million plus on U.S. advertising this year—more than all other importers combined.

In Europe, not every brewer will survive independently. Indeed, earlier this year, Miller's MacDonald stopped by Amsterdam headquarters to hoist a few brews, leaving some Heineken executives with the impression that he was on the prowl for deals in Europe. Heineken, of course, would be a perfect geographic fit.

But Heineken would not be a willing partner to a full-scale marriage. Philip Morris is probably the only company with the financial muscle to come up with the \$7.5 billion it would take to seize control of Heineken, but Vuursteen isn't exactly receptive to the idea. "There are some companies that believe if they offer enough, you'll be for sale," he says, his face reddening in anger. "We're not for sale."

Besides, the legendary Freddy Heineken would never allow it. He has repeatedly said he won't sell out.

And he's still very much a force, controlling just over 50% of the publicly traded company's stock. He gave up day-to-day operating control in 1989, but he's still chairman of the company's powerful supervisory council. Since his private office is just around the corner from Heineken's headquarters, he often pops in for chats with Vuursteen, whom he personally recruited from Dutch electronics giant Philips. Yet Freddy's succession remains an open question. His only child, a daughter, is not involved in the business. What will happen to Freddy's stake when it passes out of his control is unclear.

Vuursteen, 52, isn't waiting to find out. To defend Heineken's leading position in

the \$31 billion European beer market, he's building what insiders call "Fort Europe." The goal is to make Heineken the dominant brand in an expanded Europe in the same way that Budweiser rules the U.S. market. That's hard to do with choosy European beer drinkers, who have strong loyalties to the beers in their backyards. So Heineken is teaming up with smaller rivals in Hungary, Poland, and Switzerland, buying local stakes, planning to have them eventually brew Heineken themselves.

**PACIFIC OVERTURE.** In Asia, the key Heineken bet is on a joint venture with Singapore's Fraser & Neave, called Asia Pacific Breweries, which is the maker of

Tiger Beer. Aside from a financial stake of 42.5%, Vuursteen has strengthened the relationship by shifting more Heineken executives into the venture over the past year. More important, he has signed on to Asia Pacific's plans to spend some \$460 million over the next three years to buy and build breweries.

Already, Asia Pacific has snapped up a stake in Fujian Brewery, in the Chinese city of Fuzhou, and has plans for brewery projects in Thailand and Vietnam. Vuursteen figures the Chinese beer market is growing at 20% a year, which means an additional beer volume of some 530 million gallons—equaling the entire French beer market.

One advantage Heineken enjoys over its U.S. rivals is its lengthy history of recruiting and training globally minded executives. Han de Goedereen, Heineken's production director in the Netherlands, recalls that during his 4½ years working in Heineken outposts in Africa, the telephone often didn't work. "That was good training for making your own decisions without the support of the group in Holland," he says.

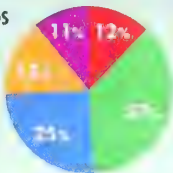
Nor has Heineken been stingy with spreading knowhow abroad. Starting in 1931, when it teamed up with Singapore's Fraser & Neave, Heineken has run the



#### 1993 BEER SALES BY REGION

- THE NETHERLANDS
- REST OF EUROPE
- WESTERN HEMISPHERE
- AFRICA
- ASIA/AUSTRALIA

#### HEINEKEN



1993 NET REVENUES  
BILLIONS OF DOLLARS

\$5.2

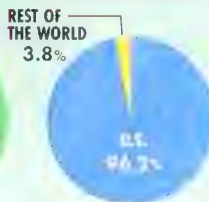
OPERATING PROFITS  
MILLIONS OF DOLLARS

\$458

PERCENT CHANGE FROM 1992

8.8%

#### ANHEUSER-BUSCH

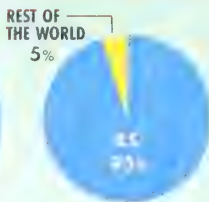


\$13.0

\$1,200

-32%

#### MILLER BREWING



\$4.2

\$215

-17%

\*INCLUDES \$565 MILLION RESTRUCTURING CHARGE

\*\*INCLUDES \$139 MILLION RESTRUCTURING CHARGE

DATA: COMPANY REPORTS, BUSINESS WEEK



technical side of the operation while its partners handled the selling. The company has followed a basic pattern: It begins by exporting, which helps boost brand familiarity and image. Then, if the market looks enticing enough, it will license its brands to a local brewer, expanding the volume of its beer reaching the market. If the relationship flourishes, Heineken may take an equity stake or forge a joint venture with it.

More often than not, the formula has worked. The primary goal is to piggyback sales of its pricier Heineken brand on top of the established local brew, employing a single sales force and distribution network for both brands. That pyramid structure, with Heineken at the top and lesser-priced brands at the bottom, is important to protecting the premium image of the company's flagship.

While it uses the home brew to cater to local tastes, the Heineken recipe stays the same everywhere. Every two weeks, the Heineken "A yeast," developed by a student of Louis Pasteur, is air-shipped from Holland to the 19 breweries around the world that make Heineken. The yeast helps give the brand its distinctive taste, which British beer connoisseur Michael Jackson describes as "crisp, slightly spritzzy, and grassy." Its premium image is the envy of brewers everywhere. While Heineken is an everyday brand in the Netherlands, its marketers have succeeded in transforming it into a top-shelf product almost everywhere else. In the U.S., a case of Heineken sells for twice as much as a case of Budweiser.

Despite its cachet, Heineken does face some gritty challenges. It remains far less efficient than its U.S. rivals, with operating margins of about 11.2% in 1994, vs. Anheuser's at 16.3%. That's a situation Vuursteen, who served as a crisis manager at Philips before joining the brewer, is hoping to change. The company cut 5% of its workforce, or 1,323 jobs, last year, mostly in Europe and Africa. There are more layoffs to come in Holland and elsewhere on the Continent. As a result, this traditionally paternalistic company is facing its first labor unrest ever.

But with its strong cash flow, conservative balance sheet, and recognition that it needs to become more efficient, chances are Heineken can remain independent for years. Its war chest of \$900 million in cash and securities, plus strong borrowing capacity, could allow it to "easily" make a \$1 billion-plus acquisition, Vuursteen says. If he can stay the course, he'll do more than merely maintain Heineken's independence. He'll be teaching the Americans their lessons for years to come.

*By Julia Flynn in Amsterdam, with Richard A. Melcher in Chicago*

## COFFEE

## TROUBLE BREWING AT THE COFFEE BAR

After Brazil's frost, U.S. price hikes provide grounds for worry

Over the past few years, millions of Americans have become addicted to novel forms of coffee: such concoctions as a \$2.20 double tall latte—two shots of espresso drowned in steamed milk. And many who once bought cans of Folger's or Maxwell House are buying beans with such names as Colombian Supremo or Irish Cream, selling for up to \$8 a pound.

But now, such trendsetters will have their newfound dedication to gourmet coffee tested. Two severe frosts in Brazil

softened, world production fell this harvest season, to an estimated 90.6 million bags—well below consumption of about 100 million bags per year.

**FAST KICK.** Next year's crop was expected to decline even more. Then the frosts hit Brazil, which grows one-third of the world's coffee, and wiped out an estimated 45% of its 1995 harvest. That sent coffee prices up 100% on New York's Coffee, Sugar, & Cocoa Sugar Exchange, to a high of \$2.74 a pound on July 13.



DAUNTLESS IN SEATTLE: AT STARBUCKS, JUST 10% PRICIER

in June and July have sent prices soaring on commodity exchanges, and the rises are being passed on to the consumer. That could turn off some of the newly initiated and lead to a shakeout in the booming business.

After dropping in the 1960s and 1970s, consumption in the U.S., the world's largest coffee market, has been climbing, largely because of specialty brews. In the '90s, that segment has grown by 7% to 10% a year, as such café chains as Starbucks and Gloria Jean's opened outlets across the country. Entrepreneurs jumped in, too, offering lattes and mochas on street corners.

Until this year, though, basic green-coffee prices remained low. That's because the International Coffee Agreement, a cartel that for years propped up prices, fell apart in 1989. As prices

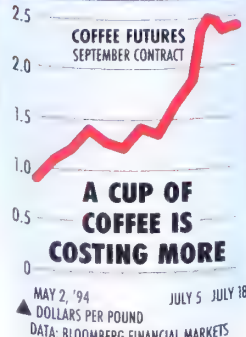
In the U.S., the big three producers reacted quickly: Procter & Gamble, Kraft General Foods, and Nestlé, which together control 70% of the market, kicked prices up 45%, or about \$1.35 per pound. Hikes by gourmet-coffee producers, with fatter margins, have been somewhat less. Brothers Gourmet Coffees in Boca Raton, Fla., the largest supplier to U.S. supermarkets, raised its prices 65¢ per pound.

Consumer agencies are taking notice. On July 1, Richard M. Kessel, executive director of the New York State Consumer Protection Board, called on the Justice Dept. to investigate the surge in retail prices. "Coffee already on store shelves has nothing to do with this year's crop," Kessel says.

Seattle's Starbucks Coffee Co., whose 383 outlets make it the nation's No. 1

operator of specialty coffee shops, claims that its planned 10% price hike on July 22 is minimal. "We did not raise our price to cover current replacement costs only to cover incremental costs in fiscal 1995," says Starbucks President Ori Smith. He and other gourmet sellers are sticking to their growth plans. They're betting that consumers hooked on lattes won't mind spending an extra nickel or dime for their morning fix.

*By Dori Jones Yang in Seattle, with Bill Hinchberger in São Paulo*



When the architect in  
Boston showed her drawings  
via computer to the client in  
Seattle, he looked puzzled  
until she walked him through  
each room.

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## BLOWING THE WHISTLE ON A FAMOUS WHISTLE-BLOWER

Accusations of stock manipulation are dogging star analyst Ray Dirks

**W**histle-blower. To Raymond L. Dirks, Wall Street's most storied securities analyst, the whistle-blower holds a special place of honor. No wonder. In 1973, while much of the Street looked on in derision—and the Securities & Exchange Commission cried foul—Dirks warned investors of a fraudulent stock, Equity Funding. In the years to come, Equity Funding went bust and Dirks was victorious, though it took a long and costly battle all the way to the U.S. Supreme Court. In the end, Ray Dirks, whistle-blower, was cleared of spreading inside information.

This new episode of the Dirks saga involves whistle-blowers. But this time, other people are blowing the whistle—on Dirks—and some of their accusations are as grave as stock manipulation. And this time, it is Dirks who is trying to discredit his most visible adversary—even as some of his closest associates seem to be taking sides against him.

Such is the latest, increasingly curious chapter in the story of the 60-year-old Dirks, one of the Street's most widely quoted stock-pickers. Today, ever more serious questions are being raised about Dirks, his firm Ray Dirks Research, and RAS Securities Corp., the Manhattan-based underwriter from which Dirks is about to part company.

This tale is multifaceted but has a common thread: Ray Dirks's most beloved stock, OXIGENE. It is the story of his effort to discredit Susie Niess, a former Dirks analyst who has no love for OXIGENE. And it's the story of Michael M. LeConey, Dirks's star biotech analyst and OXIGENE's main champion, who Niess maintains improperly traded in stocks he recommended through an account in another person's name.

**STOCK DIPS.** Apparently the SEC is examining some of the goings-on at RAS. According to sources at RAS, the SEC has launched an inquiry into trading at RAS of shares of OXIGENE. RAS Chief Executive Robert A. Schneider declined comment, and Dirks denied knowledge of the probe. (The SEC would not say if it



NISS GAVE THE SEC RECORDS IMPLICATING A DIRKS ANALYST IN ALLEGED IMPROPER TRADING

is conducting an inquiry.) The probe is said to have begun on July 1, the day an article appeared in *BUSINESS WEEK* about Dirks. The article explored accusations that current and former employees had leveled against him, Dirks Research, and RAS Securities. Some of those allegations maintained that Dirks had gone overboard in promoting OXIGENE, his largest holding, and other stocks. The sources maintained that RAS had engaged in improper trading practices to boost the price of stocks RAS took public. The allegations were denied by Dirks and Schneider.

In the weeks since then, the accusations have become even more seri-

ous. Among the questions being raised:

■ **What explains the decline in oxigene stock from June 28 to June 30, just prior to negative publicity?** OXIGENE plummeted 20% prior to a June 29 broadcast by Dan Dorfman of CNBC, who was downbeat on OXIGENE. Dorfman mentioned speculation about an impending *BUSINESS WEEK* story, which appeared on July 1 and was also negative. According to trading records, a 50,000-share block of OXIGENE stock was traded over the counter at 11:44 a.m. on June 28, some two hours before Niess says she was interviewed by Dorfman, who quoted her in his broadcast. A RAS source says the shares were bought by a



vedish institution, but it could not be terminated who the seller was or if the ning was related to the impending gative publicity. Dirks says OXiGENE ares were under attack by short-sells who, he adds, have amassed a giant ort position.

**Did Dirks artificially inflate the price OXiGENE stock in mid-July?** This allegation is stunning because it asserts that rks attempted to manipulate the price OXiGENE shares after the SEC launched inquiry on July 1. According to a urce at RAS, in recent weeks Dirks flated the price of OXiGENE by buying ares for accounts that did not order e stock, with the idea of moving the ares to other unwary account-holders hen the transaction was discovered. ach phony orders, or "wooden tickets," ould help artificially sustain the price the stock. The aim would be to even-ally unload the stock on the open mar-et at a higher price. Dirks denies he rote wooden tickets.

**Did a star biotech analyst, Michael LeConey, engage in improper trading in OXiGENE stock that he recommended?** Niess, ho once was LeConey's assistant, says e has supplied the SEC with trading eords that show LeConey engaged in ades in 1992 and 1993 for an account at he opened for William O'Mahoney t., who was described in account docu-ents as a 38-year-old man. In fact, eConey acknowledges that O'Mahoney a child, the stepson of his brother. Niess says the trades included three in-ances of front-running—illegal buying f shares prior to issuance of a favorable earch report. And documentation she as supplied to the SEC appears to bear er out in one instance. According to ernal RAS trading records, LeConey ough 8,500 shares of Premier Anes-hesia Inc. on Sept. 3, 1992, six days efore publishing a favorable report on remier. The trading records indicate hat LeConey bought 5,000 more shares fter the report came out and sold all 3,500 at a profit over the following few eeks. LeConey vigorously denies that e engaged in front-running. He ac-knowledges the Sept. 3 ade but says RAS poli-y bans trades only within three days of a earch report. LeConey maintains the ac-count lost money and hat any profits were to e set aside for his chil-dren, not himself. In 1983, LeConey was dis-missed from Merrill Lynch & Co. for setting up a trading account at another firm. Two years ater, he consented to



\$10,000 fines and suspensions by the National Association of Securities Dealers and the New York Stock Exchange. LeConey says that front-running was suspected at the time but that regulators investigated and cleared him.

#### ■ Has Dirks engaged in a smear campaign against a former analyst?

Niess, the former RAS biotech analyst, has maintained that Dirks exaggerated the merits of OXiGENE, which is developing a product to prolong the lives of patients undergoing radiation therapy. Niess, who is setting up her own biotech stock newsletter, in recent months has faxed letters to money managers maintaining that OXiGENE's prospects have been exaggerated by RAS because OXiGENE's drug is based on a cheap, widely used generic medication. Immediately after Dorfman quoted Niess in his broadcast, Dirks faxed to money managers copies of internal RAS memos and correspondence from Niess, including a handwritten letter from Niess to Dirks bitterly complaining about her neighbors. A handwritten notation from Dirks on one fax calls Niess "a sick person mentally" (above). Dirks admits to writing that. Niess asserts that Dirks has falsely accused her of mental illness in an effort to keep her from speaking out about OXiGENE. She also says she has received a letter from OXiGENE Chairman Richard A. Brown that threatens "all legal means

## SMEAR CAMPAIGN?

Ray Dirks has claimed to money managers that Niess is "a sick person mentally" and thus has no credibility in her analysis of OXiGENE. The note below was part of a multipage fax to a money manager. Niess denies charges of mental illness and maintains Dirks is trying to keep her from speaking out on OXiGENE.

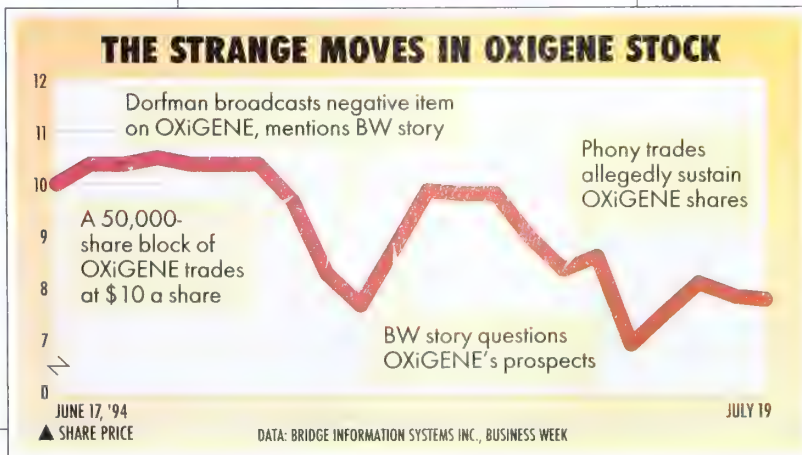
*Richard - here's the transcript - she's, to put it simply, a sick person mentally. all attacked letters Ray*

available to us to correct the situation, including litigation" if she doesn't cease what Brown describes as her "malicious assault on OXiGENE."

**LITTLE ACCORD.** In an interview, Dirks doggedly maintained that Niess was, in his words, "paranoid"—and he provided BUSINESS WEEK with copies of the correspondence and memos that he faxed to the money managers. All, he says, support his view that Niess cannot be believed. But believed about what? Dirks concedes that her main factual assertion—that OXiGENE's product is based on a cheap generic drug—is true and has not been disputed by the company. But he differs with her analysis, pointing to a series of favorable research reports written by LeConey. "You can believe anything he has to say," says Dirks.

So what does LeConey have to say?

He agrees with Dirks about OXiGENE—and not much else. "Ray is one of the most maniacal people I have ever met," says LeConey. "He gets focused on things. He likes battles and controversy. The more you stir the pot, the more excited he gets." In recent days, Dirks Research has asserted in its 900-number stock-tip service that the short position





in OXIGENE is a million shares—one-fifth of the company's market capitalization. If true, that would be very bullish because shares borrowed and then sold by short-sellers eventually have to be replaced. Dirks cites research on the subject by LeConey, who disavows authorship. "That's Ray, not me," he says. "I have no idea what the short position in OXIGENE is."

**JOB CHANGE.** What about the accusations of wooden tickets? Says LeConey: "I heard that something like that occurred. I have a habit in there of making no effort to find out about that kind of stuff, to distance myself."

Ray Dirks is doing a bit of distancing

of his own. He is severing his connections with RAS Securities over the next few weeks. Why? Says Schneider: "I asked Mr. Dirks to leave five months ago. We have philosophical differences. Let's say I'm more conservative than he is." No way, says Dirks. He maintains that he is pulling out because of a dispute over allocation of profits and because the firm is inadequately capitalized. Is that true? No way, says Schneider. Did Schneider order Dirks to cease his faxes to money managers regarding Niess? Schneider says yes; Dirks says no. And even though Schneider says that he has "shut down" the 900-number stock-tip service, it is alive and

well—though in recent days has said it has no connection with RAS. The two men agree on one thing—that a dispute over wooden tickets was not a factor in the split, as claimed by sources at RAS.

As Ray Dirks faces a move to another, as yet unknown securities firm, he is, as usual, calm and unflappable. He only seems irritated—slightly—when comparisons are made between the Ray Dirks of 1973 and the Susie Niess of 1994. Ridiculous, he says. Why? "Because she's wrong," says Dirks. But then again, that's what they used to say about Dirks in the days when he was blowing the whistle.

*By Gary Weiss in New York*

Commentary/by Greg Burns

## CLEANING UP CHICAGO'S PITS: DON'T STOP NOW

**W**hen undercover FBI agents infiltrated Chicago's futures exchanges in the late 1980s, they found that traders could cheat customers by changing prices with a simple stroke of the pen. The paper cards used to record trades hadn't changed appreciably since the 19th century. Now, if the Chicago Board of Trade has its way, that horse-and-buggy system could last into the next millennium.

The CBOT wants to postpone the introduction of handheld computers—tamper-proof devices that would replace trading cards. With the tacit assent of the Chicago Mercantile Exchange, the CBOT wants four more years to meet tough trade-monitoring standards imposed by Congress that would otherwise go into effect in October, 1995. Oh, the exchanges have a device that can do the job. But they aren't going to introduce it without being pushed.

**PATHFINDER.** It's easy to see why. The Audit trading computer would complicate life in the pits, forcing hidebound traders to change the way they do business and increasing surveillance by electronically recording every trade in sequence. The computer would prevent abuses of dual trading, a controversial practice in which brokers filling customer orders can simultaneously trade for their personal accounts. One such abuse, front-running—brokers trading ahead of their customers to get a better price—would be easily detected by Audit.

Ironically, the exchanges have made a good-faith effort to develop handhelds so far. Under pressure from the



READY OR NOT? "AUDIT" WOULD CURB FRAUD

Federal Bureau of Investigation's sting, which snared 46 traders on fraud-related charges, the Board of Trade and Merc spent \$12 million in a joint effort to develop Audit. The computer allows traders to write on a screen modeled after the paper-trading cards.

Yet Board of Trade leaders have distanced themselves from their creation. After saying for years that a computerized audit trail would best deter fraud, the CBOT now contends that paper and ink are good enough. After promoting the practical benefits—reducing errors and saving back-office expenses—the exchange says the computers' cost would put it at a disadvantage to its non-U.S. competitors. And after promoting the cutting-edge design of Audit, some CBOT bigshots argue that the machine is too heavy and slow—and couldn't be used without massive technological advances. "We could spend \$100 million and not be any further along than we are now," says CBOT Chairman Patrick Arbor.

Nonsense. "Spend another \$5 million, and you'll be light years ahead," counters John T. Geldermann, who heads Audit development at the Merc. Indeed, the two exchanges can well afford it, with volume up 45% and pre-tax profits expected to top \$60 million this year. Geldermann and some officials close to the project at the Board of Trade say the units could be operating on a limited basis within months. Although the Merc has not joined the CBOT in asking for a delay, it's not likely to meet the 1995 deadline, either.

**NEW CHIEF.** Now, it's up to the Commodity Futures Trading Commission. After years of weak leadership, the CFTC is slated to get a highly regarded new chairman, Securities & Exchange Commissioner Mary L. Schapiro. As she evaluates Audit, Schapiro may find that even with a good-faith effort, the exchanges won't be able to meet the required standards by 1995. No one would expect the deadline to stand if it meant disrupting the markets. But Schapiro should not let the exchanges use that as an excuse to back off Audit for four additional years.

The CFTC should consider prodding the exchanges to go full throttle on Audit by banning dual trading until the system is up and running. The Merc already operates under a partial ban that has done nothing to hurt market liquidity. Sure, the exchanges have improved their surveillance. But Audit would be a bigger step forward—and make them more efficient to boot.

*Burns covers the futures markets from Chicago.*



# IS YOUR LOCAL AGENT COVERED FOR THIS?

Banks are buying small insurance outfits—and agents are worried

**R**ichard W. Bellemare has had a lot to worry about over the last few years. His Bristol (Conn.) business, Tracy-Driscoll Insurance, is just now recovering from the recession-riven slump in insurance policy sales. As president of the agency, he must also vie with three local Allstate Insurance Group agencies and national insurers such as Geico Corp.

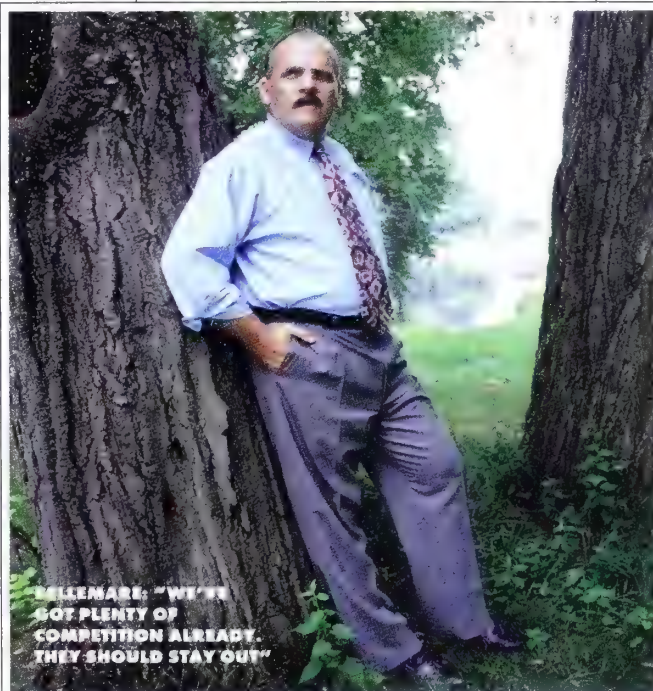
Now Bellemare has a big new worry: banks. Shawmut National Corp., with \$30.7 billion in assets, is taking direct aim at insurance agencies like Tracy-Driscoll. Shawmut bought an agency in Connecticut last fall, and plans to sell all manner of policies in its network of branches. "We've got plenty of competition already," complains Bellemare, reflecting the view of many other agents. "They should stay out of the insurance business."

**WOLF WAR.** Not likely. Banks have been selling annuities like hotcakes, racking up \$12 billion worth in 1992, fully 20% of all annuities sold. Now, in the wake of a U.S. district court decision last July authorizing national banks to sell insurance as agents from towns with fewer than 5,000 residents, Shawmut and other banks want to expand even further into agents' turf. Banks are buying agencies and gearing up to use them as a base to market products from auto to life insurance through their vast branch networks.

Banks don't yet appear ready to take on giants like Aetna Life & Casualty Co. by trying to get regulatory authority to underwrite insurance. But banks believe they can become successful agents by cutting overhead costs and selling policies as much as 30% cheaper than existing insurance agents. "The agencies see we have a competitive advantage as far as price," says Gunnar S. Overstrom Jr., Shawmut's president and chief operating officer.

The banks are moving quickly to exploit that advantage. After the district

court allowed Portland-based U.S. National Bank of Oregon to go ahead with the purchase of an agency, other banks followed suit. Last October, Jacksonville-based Barnett Banks Inc., Florida's largest bank, bought the Linda Clifford Insurance Agency in tiny Belleview, Fla. Owensboro National Bank in Kentucky is



**BELLEMARE: "WE'VE GOT PLENTY OF COMPETITION ALREADY. THEY SHOULD STAY OUT"**

trying to get authority to license its own agents. Shawmut bought Insurance Associates of New Haven Inc. last November, then moved its headquarters to Chester, population 3,370.

**LEGAL LOLLAPALOOZA.** The banks' incursions have agents fighting for their lives. They're trying to beat off the banks by filing lawsuits, lobbying state and federal politicians, and enlisting state insurance commissioners. "We will not roll over on this issue," says Paul Equale, a senior vice-president at the Independent Insurance Agents of America. "We will litigate in every court possible." Adds Warren Ruppert, executive vice-president of the state agents' association, "We perceive they're breaking the law."

Florida insurance regulators successfully sued last December to keep Barnett from buying its agency. Owensboro National has run into similar snags. First National Bank of Denham Springs has

been unable to obtain a license for an agency it created in 1989. The banks are determined, however: Barnett is appealing its ruling, and Shawmut's Overstrom says that if state insurance regulators block his plans, he'll fight all the way to the Supreme Court.

Unfortunately for insurance agents, the courtroom may be the only place they can effectively fight banks. Their political clout has been blunted by publicity of alleged sales practices violations by agents for New York Life, Prudential, and Metropolitan Life. And they've spread themselves thin by taking on numerous other issues, such as health-care reform and interstate banking.

Moreover, many insurers are supporting bankers' efforts because they gain if

## TAKING OFF THE GLOVES

**CONNECTICUT** Shawmut National bought a New Haven insurance agency in November. The state insurance regulator sued to cancel deal.

**FLORIDA** Barnett Banks purchased agency last October. The insurance commissioner sued, and a judge ruled against the bank in December. Barnett appealed.

**KENTUCKY** Owensboro National Bank tried to get authority to license its own agents. The insurance commissioner refused.

**LOUISIANA** State insurance commissioner went to court to block First National Bank of Denham Springs' purchase of an insurance agency it created in 1989.

DATA: BUSINESS WEEK

banks boost sales of their products. Over 40 insurers banded together to form the Coalition For Competition in Insurance Sales and wrote to every U.S. senator to express opposition to limits on bank insurance sales. Insurers know that banks have much more sophisticated systems for analyzing customers' buying patterns than they do. In Europe, banks sell up to five times as many policies per agent as independent agents do, according to William M. Arnold Jr., a principal at management consultants Towers Perrin.

Insurance executives, though, are anxious to avoid alienating agents by going any further to get into bed with the banks. "The agency force is very important to us," says one. With banks on the march, agents can only hope insurers continue to feel that way.

*By Chris Roush in Hartford, with Amy Barrett in Washington*



BY GENE G. MARCIAL

## MOVIES ON PC COULD MAKE THIS STOCK BOFFO

**W**ant to watch a film on your computer? That day may come sooner than expected—probably by October. That's when Image Entertainment plans to roll out its optical laser product: video CD-ROMs—sometimes called *CD-ROM: The Movie*. Some pros have started buying into Image, a major producer of laserdiscs, which is 41%-owned by financier John Kluge.

"CD-ROM: The Movie will provide affordable video products for computer applications, the market for which is potentially explosive," says Steven Christenson, director of research at Dallas Research & Trading. The rumor is that Image will soon sign contracts with studios for rights to recreate their films on CD-ROM. Already, Image makes and distributes laserdiscs of movies for Walt Disney, Orion Pictures, Playboy Home Video, and Turner Home Entertainment.

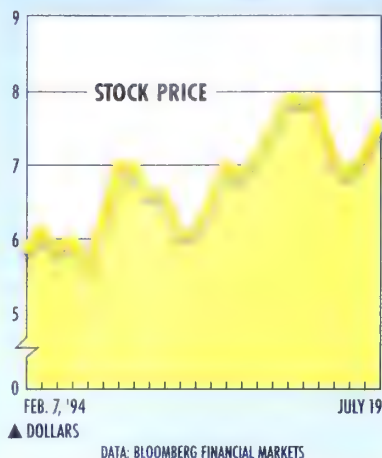
Presumably, Image Entertainment Chairman and CEO Marty Greenwald will get the same studios to sign up for CD-ROM videos. Talk is that *The Terminator*, *Dances With Wolves*, *The Silence of the Lambs*, and *RoboCop* will be among the first movies on CD-ROM.

Apart from Kluge, big Image stakeholders include Disney, which owns warrants to buy 6% at \$6 a share, and Twentieth Century Fox, which also owns warrants to buy 6% of the stock. Japanese giants Mitsubishi Electrical Industrial and Mitsui each own stakes of less than 5%.

**SOLO ROLE.** Christenson thinks the stock, now at 8, up from 5 in February, "is substantially undervalued." Image, he says, is the only pure equity play in video laserdiscs—larger versions of CDs, encoded with both visual and audio effects. And soon, Image will be the sole stock play in CD-ROM movies.

Image, which distributes more than 5,000 laserdisk movie titles to some 2,500 outlets in North America, will market the CD-ROMs in video stores, in music stores, and through PC makers. "CD-ROM: The Movie should have an immediate, positive contribution to Image's revenues and should account for 50% of sales in three years," says Christenson.

## ACTION AHEAD AT IMAGE ENTERTAINMENT?



Without the CD-ROM product, he sees Image making 25¢ a share this year on sales of \$67 million vs. 1993's loss on revenues of \$60 million. In 1995, assuming CD-ROMs kick in 11¢ a share, he sees 73¢ on a volume of \$89 million. He thinks that with the type of stakeholders involved, Image is a potential takeover target worth \$20 a share.

## A NICE, JUICY STAKE IN ISRAEL

**T**o bag winners in a hot Middle East economy, a number of big investors are buying shares of a New York outfit: Ampal-American Israel. No, it isn't a bank, although Israel's largest—Bank Hapoalim—controls it. Ampal is a holding company with large chunks of 26 Israeli companies in real estate and finance, energy, hotels, and technology.

"Ampal reflects the growing strength of Israel's economy, and we think Ampal's stock is significantly undervalued because of hidden values in many of the assets it holds," says a money manager at a New York asset-management company that owns 5% of the equity. He figures the stock will double in 18 months. U.S. investors, he notes, "are starting to pay serious attention to the investment prospects in Israel, with gross domestic product growing at an estimated 6%."

Analyst Sherri Spear of Lehman Brothers agrees. She says the current valuation of Ampal, at 8 a share, is "extremely attractive." It is "trading at an 18% discount to the net asset value," she notes. By comparison,

Spear points out that First Israel Fund, a mutual fund also focusing on Israel, trades at an 18% premium.

She says Ampal's concentration in Israel's domestic business offers an opportunity for investing in sectors that will benefit from the widening interest among European and U.S. investors. Some 22% of Ampal's investment is in hotels, including Israel's second-largest, Moriah Hotel, of which it owns 46%. A further 23% is in energy, 45% in real estate and finance, and 10% in technology.

## ALL AMERICAN IN THE BIG LEAGUES?

**H**ardly a giant among national distributors of electronic components, All American Semiconductor nevertheless has an impressive sales and earnings record that may deserve star billing. Net income doubled in 1993, and profits soared 110% in this year's first quarter. Analysts see a further 60% jump this year and a healthy 50% in 1995. So why is All American's stock performing so poorly, down from nearly 4 a share in late March to 2½?

"There is no great mystery to it," says a hedge-fund manager in New York who snapped up shares when the stock started to drop in late April. "The big institutional investors have ignored All American for the biggies in the business, such as Arrow Electronics and Avnet." He notes that only two institutions own All American shares—but says big earnings gains ahead will draw their attention. This pro has loaded up on the stock, currently selling at only a 13 price-earnings ratio, because he thinks it's worth at least twice the current price.

"Earnings surprises will be on the upside," predicts Hank Powell of Southeast Research Partners in Boca Raton, Fla. He says that the company has invested heavily in capacity and that sales could jump from an estimated \$105 million this year to between \$300 million and \$500 million in two to three years.

All American, notes Powell, is a rapidly growing distributor of components to the industrial market. It supplies a full range of semiconductors, such as microprocessors and memory chips, to original-equipment makers and contract manufacturers in various industries including autos, aviation, medicine, and telecommunications.

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## RETURN OF THE DINOSAURS

IBM's mainframes are having a good year—so far

On a morning in early July, Louis V. Gerstner Jr. took the stage at the New York Hilton Hotel to tell 1,000 customers a thing or two about big computers. Declaring reports of the mainframe's demise premature, he chided his listeners: "IBM and you all deserve a shot in the head for allowing this mythology that mainframes are dead." Easing into his I-am-one-of-you role, IBM's CEO declared: "You take my mainframe away, and my business is dead." The mostly hard-core mainframe customers ate it up. At the end of his pep talk, Gerstner was given a T-shirt emblazoned with a *Tyrannosaurus rex* and the words "Mainframe Rex." Beaming, he raised the shirt and shouted: "Dinosaurs are back."

Not so fast. A new Ice Age may be coming—as soon as next year. To be sure, Big Blue is having a respectable year selling big iron. Analysts say it is sold out through the current quarter and perhaps the remainder of the

year. Still, IBM mainframe revenues will be down for the year—although less sharply than last year's 40% drop. And the slowdown could reaccelerate in 1995 as the likes of Hewlett-Packard Co. and Sequent Computer Systems Inc. keep snagging bread-and-butter corporate customers with large-scale "server" computers running the Unix operating system. These machines anchor the local-area networks (LANs) that businesses now favor (chart).

**CHIP SHOT.** IBM has an answer: a new series of mainframes based on new technology. Although the machines aren't yet a replacement for conventional mainframes—they only do specific tasks, such as transaction processing and database query, and work as adjuncts to IBM main-

frames—Big Blue has portrayed them as the start of a new era for big iron. Based on the semiconductor technology found in personal computers, the new models cost at least 25% less than traditional mainframes to produce, IBM says.

But interest in the new PTS and PQS has been limited—largely because the cost savings aren't reflected in the prices, which are only a bit less than those of conventional IBM mainframes. So older mainframes are selling fast. But with prices 30% higher than those of Unix servers, the new machines aren't.

Why not simply cut prices? In a word: profits. Gerstner has promised investors a substantial gain in the bottom line this year, and he needs a good year in big

iron for that. "What they want to do is maximize their profit," says Gartner Group Inc. analyst Charles Burns. Mainframes and related software and services contribute some 30% of IBM's overall revenue and over half its profits. Still, if IBM loses more customers, says Burns, "this may be a win-the-battle, lose-the-war scenario."

To win the war against the upstarts, IBM must quickly move customers to newer and cheaper technology—

even if it means knocking off its own products. If not, rivals will be happy to do the job. "HP eats IBM's children, and they do it well," says Meta Group Inc. analyst Carl Greiner. "For some reason,

IBM just doesn't want to get real [on pricing]. I can give them a jillion [customers] they've lost on price."

IBM says prices will reflect the new technologies—eventually. The PTS and PQS models use PC-type chips, and future models, using dozens of processors,

should provide a further boost in bang for the buck. "This is really the technology being applied to your mainframe," says Philip G. Heasley, vice chairman of First Bank System Inc. and an early PQS customer. But according to Andrew Hurter, director of U.S. marketing for IBM large-scale computing business, it may take IBM up to 30 months to work such technology completely into its product line—an eternity for some customers.

In the meantime, the cost per million instructions per second (MIPS) of computing power on IBM machines remains high. According to Gartner's Burns, IBM ES/9000 machines sell for \$27,000 per MIPS, and the new models are at \$25,000 to \$27,000. Meanwhile large Unix servers sell for only \$18,000 to \$20,000.

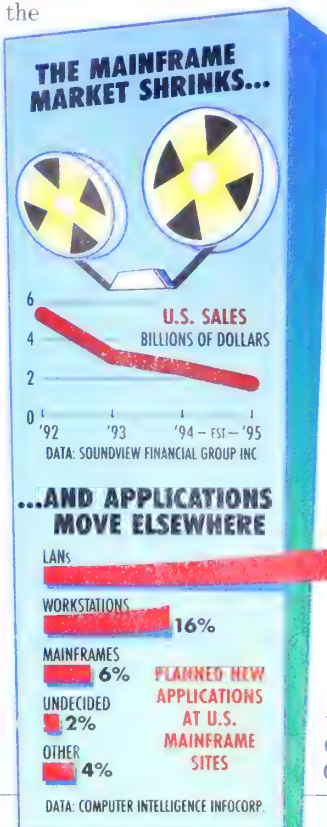
**MIPS GYPS?** That doesn't sit too well with customers. "We suggested that \$10,000 to \$12,000 [per MIPS] would be a number that would get us interested," says Boyd Hopkins, a vice-president at CIGNA Systems, the data-processing arm of insurer CIGNA Corp. Price isn't Hopkins' only worry. Key software—such as a version of IBM's DB2 database program—won't be available for the new line until next year. IBM's Hurter says lower prices and general-purpose machines are coming. And if customers won't wait? "You always worry that your market is going to run away from you before you get there," he says.

For now, Gerstner is right when he says the mainframe isn't really extinct. And he can even boast of a lineup as popular that IBM can't keep up with demand. But IBMers concede that the shortage is not entirely due to demand. Hit by a huge falloff in mainframe sales—from \$10.7 billion worldwide in 1992 to a \$6.4 billion last year, according to SoundView Financial Group—IBM simply underestimated demand. In other words, Gerstner should remember that some myths are based on fact.

By Ira Sager in New York, with Robert D. Hof in San Francisco



GERSTNER SEES A NEW ERA FOR BIG IRON BASED ON PC CHIPS





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## DOOM IS ALL AROUND US

The pulse-pounding computer game is a cult phenomenon



IN YOUR FACE: ID CO-FOUNDERS ADRIAN CARMACK, JOHN ROMERO, AND JOHN CARMACK

Perhaps you've had an experience similar to this at the office recently: Wounded badly, you scurry across a stone platform surrounded by green-glowing radioactive slime pits. Suddenly, 50 yards ahead, trouble appears. Hovering a few feet off the ground, a grotesque, 10-foot spherical blob of red flesh with horns and a single eye fixes on you with its goofy but sinister smile. The Cacodemon belches a streaking, white-hot fireball at you. "Take that," you shout, letting off a shotgun blast. The bloated monster just grins a lead-eating grin and belches fire again. You crumple to the ground, dead.

Sound familiar? Then obviously you're part of the *Doom* boom, a computer-game phenomenon that has spread to as many as 5 million computers worldwide since its release last December. With remarkable 3-D graphics, nonstop action, and the ability to be played solo or against other players across phone lines or office networks, "*Doom* is the next step up in PC games. It's the shape of things to come," says Bruce Ryon, chief multimedia analyst at market researcher Dataquest Inc.

*Doom* is proving so addictive that it

has been partially banned at New York multimedia developer Flow Research Inc., a University of Texas campus, and parts of Intel Corp. Flow Research President Daniel Gross says he played *Doom* for 18 hours straight when he first got it. "It's stultifying," he says. "You can't do anything productive afterwards."

**HUNT FOR HELLSPAWN.** But *Doom*, one of the fastest-selling programs in use today, is anything but stultifying for id Software Inc., the Mesquite (Tex.) developer of the game. Doomers, ranging from children to senior citizens, are up all night hunting specters, imps, and other hellspawn, battling each other in so-called Deathmatch tournaments, and checking out the latest *Doom* lore by conversing with the game's developers over computer chat lines.



TAKE THAT: ANOTHER DEMON BUYS IT

The *Doom* boom has quickly made id Software an important player in computer games—and potentially a come in multimedia. It also proves the amazing power of marketing in cyberspace. As it did with an earlier game called *Wolfenstein 3D*, id has promoted *Doom* by giving away copies for free—as so-called shareware. Id encourages people to grab *Doom* from an Internet computer or Apogee Software Inc.'s shareware bulletin board, or to reproduce a friend's shareware disks.

**BODY ENGLISH.** So far, close to 100,000 people have gone on to pay \$40 for the complete *Doom* package, says id Chief Executive Jay Wilbur. It provides two extra "levels," or episodes, to play. Because the 10-person, privately held company sells directly over the phone, profits are rolling in. Now, two of the three programmers who founded the company in 1991—John Romero, 26, and John Carmack, 23—can be seen around town in their Ferrari Testarossas. Co-founder and artist Adrian Carmack, 27 but no relation, drives an Infiniti. Id's 1994 revenues: \$6 million to \$10 million.

What's the allure of *Doom*? While it lacks the sophisticated plot of many CD-ROM-based games, it makes up for that with unmatched intensity. Id's proprietary graphics software lets players move fluidly in a 3-D world. With stereosound, the illusion gets so convincing that players often try body English to avoid their demon foes. And long *Doom* sessions can lead to strong aftereffects. Players report seeing real walls move and wondering what beast is lurking around the next street corner.

*Doom* also has spawned worldwide collaboration over the Internet. By releasing technical details of its program, id has enabled *Doom* fans to write hundreds of extensions to the game. Most including a popular episode that lets players chain saw their way through dozens of purple Barney dinosaurs, all available on the net.

What's ahead for Doomers? Id has authorized a company called Austin Virtual Gaming to license an eight-screen *Doom* arcade setup around the country. It also has hired an agent to shop *Doom* movie and literary rights. And gunships everywhere are trained on Oct. 10, Doomsday—when id plans to ship *Doom* 2. Wilbur says it will be "bigger, badder and better"—new levels, new weapons, and new demons. With promotion and distribution to be handled by New York-based video distributor Good Times Entertainment, id is looking for sales to approach 1 million units. If that happens, id may develop an ego.

By John W. Verity in New York

# Daddy fought in the war.

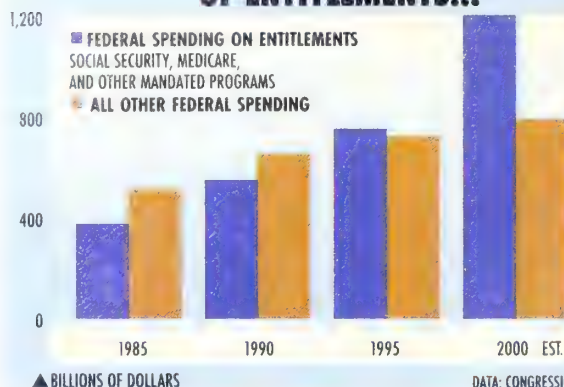
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## THE FUTURE SHOCK OF ENTITLEMENTS...



## ...AND THE ODDS OF PASSING LEGISLATION TO CONTROL THEM

### CURB COST-OF-LIVING HIKES

The inflation index could be adjusted downward.

2-1

### RAISE THE RETIREMENT AGE

Boomers may have to postpone that retirement cruise until they're 70.

BET THE RANCH

### MEANS-TEST MEDICARE

Wealthy retirees could get socked with higher premiums.

3-1

### MEANS-TEST SOCIAL SECURITY

85% of wealthy's benefits are taxed now. Congress is eyeing the rest.

5-1

### RAISE SOCIAL SECURITY TAXES

Same rate, but all wages might be taxed—not just the first \$60,000.

10-1

### LIMIT MORTGAGE DEDUCTION

Principal residences are safe. Second homes aren't.

20-1

## IS NOTHING SACRED ANYMORE? MAYBE NOT

Suddenly, cuts in Social Security and Medicare are thinkable

**S**lowly, reluctantly, but inexorably, the political system is zeroing in on federal programs that, until now, have been considered untouchable. Not long ago, terrified lawmakers would not even talk about cutting spending for programs such as Social Security, Medicare, and Medicaid. Now, the House is taking votes on ways to curb these and other entitlement programs, and a Presidential commission is looking at serious long-term cuts. At the same time, Washington is starting to turn its attention to another corner of government that has been growing uncontrollably, the 140 subsidies that litter the Internal Revenue Code—subsidies such as the home-mortgage deduction.

Under heavy pressure from a cadre of Republicans, rogue Democrats, and newly elected deficit hawks, the House is considering ways to impose an overall cap on the total cost of mandatory spending programs. Later in the summer, it will vote on proposals to cut specific benefits for current and future retirees.

**STARK CHOICES.** Health-care reform has put the rising cost of Medicare and Medicaid on the front burner as well. In the midst of all the jabber about "soft triggers" and "health alliances," Congress is facing stark choices. Some versions of health-care reform would expand Medicare. Others would create new entitlements—for small business, for instance.

Still others would slash Medicare spending by tens of billions of dollars. Privately, many lawmakers admit they will be unable to finance universal coverage without cutting reimbursements for doctors and increasing premiums for wealthy pensioners.

The White House-chartered Bipartisan Commission on Entitlement & Tax Reform also is turning up the heat on entitlements. That group, chaired by

Senators Bob Kerrey (D-Neb.) and Jol C. Danforth (R-Mo.), hopes to have specific recommendations by yearend on ways to reduce entitlement spending, curb tax breaks, and overhaul the tax code. The goal: to reduce the deficit and raise national saving.

**POLITICAL SUICIDE?** Of course, spine in plants in a few politicians don't mean Washington will change overnight. While many Democrats back cuts in tax subsidies, Republicans insist they won't even discuss the issue. At the moment, the Kerrey Commission is struggling just to define the problem it's wrestling with. And the anti-entitlement amendment in the House won't become law any time soon. But something important is happening. What was unmentionable five years ago is now being debated all over Washington. "It's been the conventional wisdom that even discussing these topics

## QUIXOTE FROM NEBRASKA

**S**ocial Security was once dubbed the "third rail of American politics." Yet Senator Bob Kerrey, a Nebraska Democrat running for reelection, is grasping the issue with both hands.

The 50-year-old Kerrey is chairman of the Bipartisan Commission on Entitlement & Tax Reform, whose goal is to raise private savings and cut the deficit. That means curbing programs such as Social Security and Medicare. Already, he's being hammered as the guy

who wants to trash Social Security.

The job is so distasteful that some cynics hint that President Clinton suckered Kerrey into taking it. But the intense senator says it was neither punishment nor payoff. Kerrey insists he volunteered: "I think it is a moral issue. There is virtue connected to this idea of saving."

Kerrey, a Medal of Honor winner who opposed the Persian Gulf War, has always marched to a different drummer. And tackling entitlements won't win him many friends in the Senate. But the quixotic Kerrey doesn't seem to mind. Instead, he quotes a line usually attributed to Harry Truman: "If you want a friend in Washington, get a dog."



KERREY: "I THINK IT IS A MORAL ISSUE"

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is political suicide," says Representative Christopher Cox (R-Calif.). "The commission has already demolished that taboo."

Why are all these lawmakers suddenly willing to march into the lion's den? There is only one reason: They have run out of places to cut big bucks from federal spending. Since 1990, they have raised taxes and cut planned spending by a staggering \$1 trillion. In fiscal 1995, the deficit is expected to fall below \$200 billion. But starting in 1997, it will begin heading back up, largely because the cost of entitlement programs is about to explode. "Now," says Martha Phillips, executive director of the Concord Coalition, an antideficit group, "people have realized that entitlements are the key to deficit reduction."

Some startling numbers show why. Collectively, entitlements such as Social Security, Medicare, and Medicaid—as well as welfare, farm subsidies, and veterans' benefits—will cost the federal government over \$800 billion this year, more than half the budget. The tax breaks—"tax expenditures" in budgetese—will cost the Treasury \$400 billion in lost revenue, cutting the total tax take by one-third.

**BOOMER BUSTERS.** The present situation is worrisome enough, but the future looks horrendous. Within a couple of years (chart, page 74), the government will be spending more money on pensions and health care for the elderly than it does on national defense, education, crime prevention, national parks, and everything else combined. Twenty years from now, when the first baby boomers start retiring, every cent the government is expected to collect in taxes will go just to entitlements and interest on the debt. "The arithmetic is inexorable," says Federal Reserve Board Chairman Alan Greenspan. "It is something we just cannot push under the rug."

While the fiercest resistance to change comes from today's pensioners, they are not the ones really threatened. Current retirees will almost surely enjoy solid benefits throughout their lifetimes. The real impact will be on baby boomers, and they're not yet paying attention. That presents an opportunity for deficit hawks. Says Allen Schick, a professor at the University of Maryland and a budget specialist: "People won't let you take away a benefit at the brink of their retirement. But the boomers are not yet agonizing about it. That's the window to slice benefits."

It is finally dawning—albeit slowly—on the political Establishment that if entitlements have to be tackled, better now than when the boomers wake up. That's why entitlement cuts are coming—and sooner than anyone ever imagined.

*By Howard Gleckman in Washington*

## Legal Affairs

PRODUCT LIABILITY

# SNATCHING DEFEAT FROM THE JAWS OF VICTORY

A Senate product-liability bill was in hand until last-ditch action



**SUPERLOBBYIST THOMAS BOGGS HELPED SAVE THE DAY FOR TRIAL LAWYERS**

**W**hen auto-parts distributor Dale R. Larson boarded a plane in Fargo, N.D., bound for Washington on June 27, he was looking forward to a victory celebration. The Senate had scheduled a critical vote on product-liability reform for the next day, and Larson, who had spent more than a decade crusading for the bill, believed Congress would finally put an end to outrageous jury awards and skyrocketing legal costs.

Larson's optimism was understandable. Unlike past years, when conservative Republicans dominated the drive for reform, this year's battle was headed by West Virginia's Senator John D. Rockefeller IV, a respected moderate Democrat who could transform the often acrimonious fight into a cool bipartisan negotiation. Rockefeller was confident he had more than enough support to quash a filibuster in votes set for Tuesday night and Wednesday morning. With that victory in sight, final passage of the measure would be closer than ever.

But it was not to be. A barrage of clever last-ditch assaults orchestrated by consumer activists and trial lawyers proved too much for Rockefeller and his allies. Opponents of the bill convinced lawmakers through emotional appeals from victims, gender politics, and provisions involving tobacco and guns, turning loose some of the most powerful lobbying groups in Washington. "They threatened everything at us, and they won," sighs pro-business lobbyist Victor E. Schwartz. **"SIDESHOW."** This is the story of how a bill that had gained so much momentum was abruptly derailed. On the morning of June 28, advocates for both sides were nervously milling about the gilded anteroom outside the Senate chamber. Two dozen business lobbyists sporting "Product Liability Reform November" buttons were on one side of the room, collaring as many lawmakers as they could. On the other side were about the same number of opponents, including 24-year-old Marlo M. Mahne, a disabled Ford Mustang crash victim who



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CORPORATE ANGEL NETWORK, INC.

rs she paid her own way from Gaines-le, Fla., to fight the bill.

Mahne, who consumer advocates say personifies the need to make companies le for their misdeeds, became a light-g rod of sorts during the debates. one point, while Mahne stood in the eeroom with Pamela Gilbert, director Ralph Nader's Congress Watch, Gen-il Motors Corp. lobbyist Alfred W. rtese Jr. came by and tossed Gilbert a n. "Here's a quarter for your side-ow," he said, referring to Mahne's esence. When asked about it, Cortese plains: "I wanted to register my dis-te for those tactics. They're exploiting e victims." Nader, who quickly spread of the incident to Senate aides, ists that Cortese's comment was orth votes for us."

Such last-minute an-s were only a portion the opponents' strate-. Additional votes ne from female Demo-tic senators because one element in the bill it would have barred nitive damage awards e injuries caused by oducts approved by e Food & Drug Ad-nistration or the Fed-ral Aviation Adminis-tration. The activists d that if the measure re in place years ago, omen injured by sili-re breast implants, the ti-miscarriage drug s, and other allegedly ictive medical devices d drugs would not have been able to t adequate compensation.

That argument angered Rockefeller d business lobbyists because DES and plants never were approved by the A. "Nader and all the consumer oups were lying," Rockefeller fumes. bert contends that relying on FDA ap-oval to shield manufacturers from li-ility is dangerous. "The FDA isn't per-t," she says.

The activists' argument yielded little at st. "We hit a brick wall," admits Karen Renick, a victims' advocate from DES tion USA. But then they found a potent y—House member Patsy T. Mink (D-waii), herself a DES victim. Mink had cessfully sued the University of Chica-15 years ago over a 1951 experiment the school's hospital, which adminis-tered DES to Mink and other pregnant omen without telling them. Mink, whose ughter has a precancerous condition, nd out years later about the experi-ent after receiving a letter from a

researcher. "I blew my top," she says.

Mink's credibility had a powerful influ-ence on some senators. And on June 14, at a news conference sponsored by Pub-lic Citizen and victims' groups, Mink and Senators Carol Moseley-Braun (D-Ill.) and Barbara Boxer (D-Calif.) blasted the product-liability bill. Braun, for one, had previously indicated she would vote with Rockefeller, Senate aides say.

**TWIN TORPEDOES.** Another bombshell dropped on reformists five days before the big vote, when Senator Frank R. Lautenberg (D-N.J.) announced amend-ments that brought two heavyweight lobbies into the debate for the first time. With the help of Consumers Union lob-byist M. Kristen Rand, Lautenberg drafted an amendment that would hold

who sue tobacco companies. "My ten-dency is to be with the business commu-nity," says Hecht. In the end, Lauten-berg's amendments never were offered, but they turned at least one senator at a moment when every vote counted. Aides to pro-tobacco Senator Wendell H. Ford (D-Ky.) say their boss would have voted to end the filibuster had it not been for Lautenberg's proposals.

Shortly before the June 28 vote, Rockefeller knew he would lose if he didn't withdraw the FDA provision. So he decided to support an amendment to drop it. But the next day, Senators Ernest F. Hollings (D-S.C.) and Howell Heflin (D-Ala.), perennial friends of the trial lawyers, refused to allow any changes to the bill. Lobbyists speculate

that Boggs, a hunting buddy of Hollings and longtime ally of Heflin, had a hand in their objections. It would have been vintage Boggs, who is known to target key lawmakers such as committee heads and senior legislators during critical debates—a strategy that contrasts with other lob-byists who generally ap-pel to rank-and-file members to peel off votes one at a time. Boggs declines to comment about his role in the product-liability fight.

Despite the setback, Rockefeller was just three votes shy of the 60 he needed to end the de-

bate. But then, the bottom fell out. Sen-ator Donald W. Riegle Jr. (D-Mich.), who had voted to end the filibuster the night before, switched his vote on Wednes-day morning with little explanation. Lawmakers willing to cast the 60th vote only if necessary—but who were unwill-ing to cast the 59th—soon joined Rie-gle. Even Larry Pressler (R-S.D.), a co-sponsor of the bill, turned against it to protest the FAA's reluctance to release documents on a 1993 plane crash that killed South Dakota Governor George S. Mickelson. "I decided in great frustra-tion" to vote against the bill, said Press-ler. In the end, it never got more than 57 votes.

In the Senate anteroom after the Wednesday vote, Rockefeller made it clear that the forces who defeated him won't be able to rest on their laurels for long. As he departed, Rockefeller told Boggs: "I'll be giving you more busi-ness next session." Boggs just smiled.

*By Catherine Yang in Washington*

## HOW LOBBYISTS BEAT BACK TORT REFORM

**GENDER POLITICS** A provision consumer groups argued would limit damages in cases brought by women injured by medical devices turned female and other lawmakers against the bill.

**GUNS AND TOBACCO** Powerful lobbies for gun and cigarette manufacturers joined the fight against reform for the first time when amendments were introduced making it easier for consumers to sue the companies. The amendments cost the support of lawmakers from tobacco states, such as Senator Wendell Ford of Kentucky.

**EMOTIONAL APPEAL** As part of a campaign organized by victims' groups, a disfigured Florida auto-accident victim, along with other victims of various product malfunctions, spoke with lawmakers outside the Senate chamber on the days of crucial votes. The victims argued that they could not receive proper compensation under the proposed measure.

**CONNECTIONS** Top trial-lawyer lobbyist Tommy Boggs's longtime relationships with key senators, including Majority Leader George Mitchell, helped sway pivotal votes.

gun dealers liable for selling to minors and mentally impaired persons who then hurt others. Lautenberg also backed a change that would require the tobacco industry to pay for federal health expenses stemming from tobacco use.

Predictably enough, the National Rifle Assn. and the tobacco lobby quickly swung into action. "My phone went into phone melt from calls from the NRA," says one business lobbyist. The tobacco industry's opposition produced strange political bedfellows. Outside the Senate chamber the night of the vote, tobacco lobbyist William H. Hecht sat next to superlobbyist Thomas H. Boggs Jr., whose clients include the trial lawyers

Even one of the bill's co-sponsors changed his mind at the last instant



d R E A m

I'm walking down the hall. Sprinkler

And everything starts

That division. Four departments

Another six are even

2

er on everything.  
This division.  
mushrooming.  
have to stand back.  
touch bursts into something bigger.





# STEPPING SMARTLY AMONG MONEY FUNDS

**F**or nearly three years, the stock market went up, interest rates fell ever lower, and money-market funds were just plain boring. Then came 1994.

Rising rates and unsettling volatility in the stock and bond markets have made money funds much more interesting. Not only do they provide a great place to hide out for a while, but their otherwise-lackluster yields have been edging up. Since Feb. 4, the first time the Federal Reserve raised short-term rates, the seven-day average yield on all taxable money funds has moved from 2.68% to 3.82%, according to *Money Fund Report*. The top-ranked Fundham Prime Money Market Fund returns a not-too-shabby 4.59%.

But not all money markets are created equal. There are more than 1,000 to choose from—in several categories. Even with this most conservative brand of mutual fund, you should consider what risks you are willing to take, as well as the impact of taxes and expenses.

## BAILOUTS. Case in point:

Some money funds had to be bailed out recently, so their share prices wouldn't fall below \$1. In an effort to increase yields, these funds purchased certain derivative securities, which plummeted in value when rates rose and had to be sold at a loss. BankAmerica, for one, covered losses of \$67 million in two of its Pacific Horizon funds in June. This doesn't mean mon-

ey fund shareholders should panic, says Robert Plaze, assistant director of the Securities and Exchange Commission's investment management division. At worst, these funds' net asset value would have temporarily fallen to 98¢ or 99¢ before returning to \$1.

But these bailouts proved that some money-market fund managers are willing to pursue more aggressive strate-

gies than others. While BankAmerica says the structured notes it was forced to sell at a loss were "permissible investments," some pros were amazed a money-fund manager would buy them.

"Derivatives of one sort or another are almost unavoidable," says Ian MacKinnon, who heads Vanguard Group's fixed-income unit. But while some are safe and liquid, oth-

ers aren't appropriate for money funds, he says, even though they may be ideal for other kinds of bond funds. In a June 2 letter, the SEC stated that the following derivatives were unsuitable for money funds: "inverse floaters," "leveraged floaters," "CMT floaters," "capped floaters," "range floaters," "dual-index floaters," and "COFI floaters." Partly because of the letter, funds that dabbled in risky derivatives have probably sold them and taken the losses, says Teresa Reinger, editor of *Money Fund Report*.

**REPO DEALS.** But if the idea of exposing your cash reserves to exotic securities makes you nervous, ask the fund about its policy on derivatives. "We're getting those calls," says Amy O'Donnell, portfolio manager of taxable money-market funds at Benham. "It's very comforting for us to say we don't own the problematic ones." Benham Prime Money Market Fund enjoys the No. 1 spot primarily because it opened last November and has been able to park its portfolio with higher-yielding securities as a

sets have grown.

To avoid derivatives completely, you can stick with 100% U.S. Treasury funds. Their average yield of 3.5% isn't too exciting, but you may get a boost: They're exempt from most state taxes.

For a little more yield and a touch more risk, some money funds invest in treasury and repurchase agreements, or "repos." In a typical re-





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## THEY'RE NOT ALL THE SAME

| Money-Market Fund Investments       | Yield*                                                                                                                                                                                                                  |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>100% U.S. TREASURY</b>           | Highest safety. Federal tax applies; returns tax-exempt in most states. <b>3.57%</b>                                                                                                                                    |
| <b>U.S. TREASURY AND REPO</b>       | Participates in repurchase agreements, in which a bond dealer sells securities, agreeing to buy them back on a certain date at a specified price. <b>3.66%</b>                                                          |
| <b>U.S. GOVERNMENT AND AGENCIES</b> | Buys securities issued by U.S. agencies, such as the Student Loan Marketing Assn. The funds have no credit risk, but some have taken on market risk by purchasing derivatives. <b>3.66%</b>                             |
| <b>GENERAL PURPOSE</b>              | Can buy high-quality commercial paper of corporations, which adds some credit risk. May gamble with derivatives. A handful of "second-tier" funds purchase lower-quality paper for a higher yield (4.14%). <b>3.77%</b> |
| <b>TAX-FREE</b>                     | Invests in short-term municipal securities, such as tax anticipation notes. Exempt from federal taxes. Only state-specific funds avoid state taxes. <b>1.84%**</b>                                                      |

\*Compound annualized 7-day yield, including reinvested dividends and capital gains for the week of July 6–12.

\*\*3.05% tax-equivalent; 39.6% tax bracket

DATA: IBC/DONOGHUE INC., BUSINESS WEEK

that's not enough reason to choose a tax-free fund. Since prices of municipal debt have held up much better than government and corporate debt this year, the spread between tax-exempt and taxable money funds is now a lot wider. People in the highest tax bracket may be able to find a tax-exempt fund that will generate a better aftertax yield

than a taxable fund. But that is getting harder to do.

Compare how you would fare in taxable vs. tax-exempt funds by subtracting your tax bracket from 1 and dividing that into the tax-exempt yield times 100. Using this formula, a tax-free yield of 1.84% (the average for retail tax-free funds) for someone in the 39.6% bracket compares with

a taxable yield of 3.05%. The average taxable fund yields 3.77%. Only state-specific funds are exempt from local as well as federal taxes. And some treasury-only funds are exempt from state taxes but not federal ones. You may need an accountant to determine your best aftertax return.

**"GRADATIONS."** You should also look at expenses. In the second quarter of 1994, 57% of money funds were waiving all or part of their charges temporarily, and the average expense ratio was 0.58%, according to *Money Fund Report*. But fee-waivers can be misleading, since charges can be reinstated at any time. Vanguard doesn't waive them but offers fixed low expenses: 0.32% for its Money Market Reserve funds and 0.15% for its \$50,000-minimum Admiral series. Other companies lower expenses for people who

sock away a lot of cash.

Although different money funds have different risk levels, "we're talking about very small gradations here," says Sanford Bragg, managing director of Standard & Poor's Ratings Group. Still, since safety is paramount to money-fund investors, you should know exactly what you're buying into. *Amey Stone*

## FOR THE MID-TERM, T-BONDS GET TOP MARKS

funds earn almost 4% on average—gaps that have widened since February. The three- and five-year T-bonds yield about 6.3% and 6.8%, respectively. One reason for the differential is that banks have been slow to raise the rates they pay depositors even as the rates they charge borrowers have moved upward since the spring.

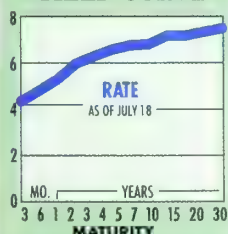
A money-market fund would still make more sense for someone who might need instant access to the cash. If you buy a treasury and want the money quickly, you would have to pay a fee on the sale of your bond; Charles Schwab charges a flat \$49. You may also suffer a loss of principal if rates have risen.

Treasury securities have the added bonus of not being taxed at the state or local level. They are, however, subject to federal taxes. Investors in higher brackets, par-

ticularly those paying above 39%, may want to consider municipal bonds, which usually are exempt from state and federal taxes. The tax benefits on treasuries typically are best for those with a rate of less than 30%.

Investors can buy T-bonds from any Federal Reserve Bank or through a brokerage firm. Buying directly from the government requires at least \$5,000 for two- and three-year bonds, \$1,000 for five-year notes, and there is no transaction cost. Brokers can sell some securities in smaller amounts, but they charge a commission. Either way, one of the safest investments is also offering some of the best returns. *Amy Barrett*

### PLAYING THE YIELD CURVE





## Smart Money

### BREATHING LIFE INTO TIRED STOCKS

**A**re your stocks stagnating? You're not alone. These days, many stocks are just rocking back and forth in a narrow trading range. That makes it a good time to generate some extra dollars by selling "covered calls"—a fairly safe options play.

A covered call is an option you sell on stock you already own. It gives the buyer the right to purchase your shares at a fixed "strike" price for a limited amount of time—commonly, three months. For this right, the buyer pays you a premium, providing you with an instant return on a stock that may not be budging. The premium can soften the blow if the price of the stock drops.

"If you can pick up a 1% to 3% return every few months, it's a significant boost to your annual return," says Richard Schmidt, president of Stellar Management, a money manager in Naples, Fla. "It also keeps you from losing as much in a down market. The only negative is that it could limit upside gain." That's why it's not a good strategy for a bull market. And in a bear market, you might want to buy put options, which deliver a profit if the stock price drops below that specified in the contract.

But in this so-called sideways market, covered calls

are the strategy du jour. Take retired businessman Glenn Caudill of Naples. He bought 6,500 shares of Motorola at \$35. Now that it's trading around \$50, he wants to take some profit. Instead of outright selling, he had his broker "write" covered calls at a strike price of \$50 for \$4 a share. His 65 contracts, each covering 100 shares worth \$26,000, cost him \$157.11 in commissions at a discount broker. The minimum commission at discount broker Charles Schwab is \$39. A full-service broker would charge around \$751 for the same deal. The call is then traded on an options exchange.

Investors who think Motorola could go above \$54 will buy the call. But if the stock is still \$50 when the call expires in October, the buyer won't exercise it. Then Caudill can keep the stock and the \$4 per share premium—for an 8% return in only three months.

**"BUILT-IN PROFIT."** If the stock drops to \$45, the buyer also won't exercise the option because he can purchase Motorola on the open market for less. When the call expires, Caudill would have a \$5 per share paper loss, but an offsetting \$4 gain from the premium. Thus the call would protect him against a small price drop.

If the stock rises above \$50, say to \$54, the buyer will exercise the option because at \$50, the call is cheaper than the stock's price on the market. Caudill must surrender his stock for \$50, but the \$4 premium gives him the same profit as if he had sold it outright at \$54. However, that's the most he can make. If Mo-



### A SHORT COURSE IN COVERED CALLS

*Writing covered calls is the most basic form of options trading. It means you sell to another party the right to buy stock you already own. Here's how it works:*

The 1,000 shares of XYZ stock you bought for \$56 each have been stagnating. You hope to generate extra income by writing a call to sell the stock at \$60. The option price is \$3 per share, or \$3,000. The commission for 10, 100-share contracts is around \$71 at a discount broker.

**IF THE STOCK PRICE DOESN'T CHANGE** The call buyer doesn't exercise the option at the end of three months. The call expires, you keep the stock, and collect \$3,000, a 5% return.

**IF THE STOCK PRICE RISES** XYZ climbs to \$65. The buyer exercises the call and buys the stock for \$60. You make the \$3 per share premium plus the \$60 strike price. Your profit is \$7,000, including \$4,000 appreciation in the stock price. But you lose out on the two-point appreciation above \$63.

**IF THE STOCK PRICE DROPS** If the stock falls to \$50, the buyer won't exercise the call because the market price is cheaper than the strike price. You pocket the premium of \$3,000, which cuts your loss from \$6,000 to \$3,000.

DATA: BUSINESS WEEK

torola goes to \$60, he will lose out on the extra \$6 per share in appreciation. But Caudill doesn't mind because he bought the stock so cheaply in the first place. "I wouldn't do this if I didn't have a built-in profit," he says.

**BE PREPARED.** Most covered calls are sold slightly above the current stock price. "That allows you to participate in some upside appreciation over and above the option premium," says Michael Schwartz, chief options strategist at Oppenheimer & Co. in New York. Strike prices usually come in \$5 increments, so you would pick the one just above your stock price—say, \$50 for a stock selling at \$48.

Because a covered call limits the appreciation you can realize, write one only if you like a stock but don't think it will rise much. Conversely, if you think the stock will tank, sell it. The premium isn't much help if the price plummets.

Also, only write calls on issues of companies you don't mind selling, because if your stock rises above the strike price, the buyer will probably want it. "You have to be mentally prepared for giving away the appreciation," says Bernard Schaeffer, editor of *Option Adviser* in Cincinnati. If you change your mind in midcall, you can buy back the option before it's exercised. And as the call expires, you can roll it over to varying strike prices.

After a year of writing covered calls, Caudill has become a fan. "The only reason I didn't use it before was my nervousness about dealing in options," he says. Educational materials from the Chicago Board Options Exchange (312 786-5600) and the Options Institute (312 786-7760) helped quell his fears. So did the success that came from using the right financial strategy at the right time.

Pam Blum

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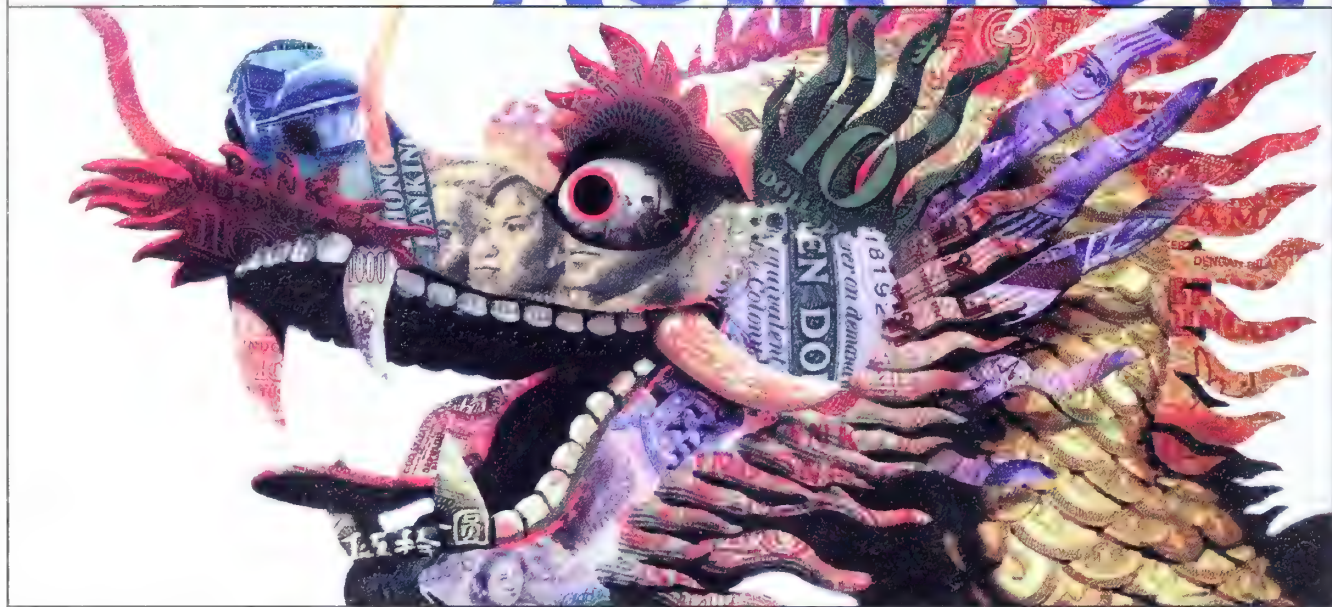
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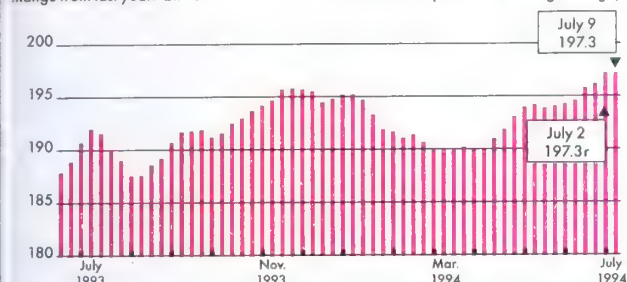
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# Business Week Index

## PRODUCTION

Change from last week: 0%  
Change from last year: 2.7%

1967=100 (four-week moving average)

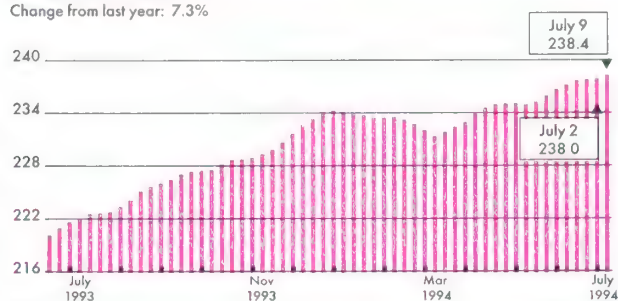


The production index was flat for the week ended July 9. Seasonally adjusted output of autos, trucks, steel, electric power, crude-oil refining, lumber, and rail-freight traffic all declined. Coal, paper, and paperboard production increased. Before calculation of the four-week moving average, the index fell sharply, to 196, from 198.6. Some of the decline reflected a later-than-usual Independence Day and autoland closings for model changeovers.

BW production index copyright 1994 by McGraw-Hill Inc

## LEADING

Change from last week: 0.2%  
Change from last year: 7.3%



The leading index increased during the week ended July 9 as materials prices continued to grow at a rapid pace. In addition, higher stock prices and faster growth rates for M2 and real estate loans contributed to the gain. On the negative side, bond yields were higher, while data on large-business failures were unavailable. Before calculation of the four-week moving average, the index rose sharply to 240, from 238.2 in the previous week.

Leading index copyright 1994 by Center for International Business Cycle Research

## PRODUCTION INDICATORS

|                                                  | Latest week | Week ago | % Change year ago |
|--------------------------------------------------|-------------|----------|-------------------|
| STEEL (7/16) thous. of net tons                  | 1,874       | 1,892#   | 1.1               |
| TRUCKS (7/16) units                              | 35,237      | 21,249r# | -53.7             |
| TRUCKS (7/16) units                              | 13,716      | 23,043r# | -70.4             |
| ELECTRIC POWER (7/16) millions of kilowatt-hours | 67,753      | 68,544#  | -1.4              |
| CRUDE-OIL REFINING (7/16) thous. of bbl./day     | 14,391      | 14,200#  | 1.2               |
| STEEL (7/9) thous. of net tons                   | 14,660#     | 18,630   | 5.2               |
| PAPERBOARD (7/9) thous. of tons                  | 748.0#      | 788.0    | -0.7              |
| PAPER (7/9) thous. of tons                       | 841.8#      | 871.9    | 5.2               |
| LUMBER (7/9) millions of ft.                     | 343.3#      | 461.8    | 2.1               |
| RAIL FREIGHT (7/9) billions of ton-miles         | 18.5#       | 22.3     | 1.1               |

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SPPA, Association of American Railroads

## FOREIGN EXCHANGE

|                        | Latest week | Week ago | Year ago |
|------------------------|-------------|----------|----------|
| JAPANESE YEN (7/20)    | 99          | 98       | 107      |
| GERMAN MARK (7/20)     | 1.56        | 1.53     | 1.72     |
| BRITISH POUND (7/20)   | 1.55        | 1.57     | 1.50     |
| FRENCH FRANC (7/20)    | 5.36        | 5.25     | 5.86     |
| CANADIAN DOLLAR (7/20) | 1.38        | 1.38     | 1.28     |
| SWISS FRANC (7/20)     | 1.32        | 1.29     | 1.51     |
| MEXICAN PESO (7/20)*   | 3.403       | 3.400    | 3.117    |

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

## PRICES

|                                                     | Latest week | Week ago | % Change year ago |
|-----------------------------------------------------|-------------|----------|-------------------|
| WORLD (7/20) \$/troy oz.                            | 387.450     | 384.650  | -1.3              |
| STEEL SCRAP (7/19) #1 heavy, \$/ton                 | 117.50      | 116.50   | -0.8              |
| WOODSTUFFS (7/19) index, 1967=100                   | 213.8       | 211.2    | 3.9               |
| COPPER (7/16) c/lb.                                 | 114.6       | 114.3    | 26.6              |
| ALUMINUM (7/16) c/lb.                               | 74.0        | 72.5     | 33.3              |
| WHEAT (7/16) #2 hard, \$/bu.                        | 3.47        | 3.38     | 6.1               |
| COTTON (7/16) strict low middling 1-1/16 in., c/lb. | 69.73       | 71.47    | 24.2              |

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. \*Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

## LEADING INDICATORS

|                                           | Latest week | Week ago   | % Change year ago |
|-------------------------------------------|-------------|------------|-------------------|
| STOCK PRICES (7/15) S&P 500               | 449.54      | 447.61     | 0.2               |
| CORPORATE BOND YIELD, Aaa (7/15)          | 8.18%       | 8.18%      | 14.2              |
| INDUSTRIAL MATERIALS PRICES (7/15)        | 103.6       | 102.6      | 9.2               |
| BUSINESS FAILURES (7/8)                   | NA          | NA         | NA                |
| REAL ESTATE LOANS (7/6) billions          | \$430.7     | \$428.8r   | 4.1               |
| MONEY SUPPLY, M2 (7/4) billions           | \$3,556.3   | \$3,547.2r | 2.5               |
| INITIAL CLAIMS, UNEMPLOYMENT (7/2) thous. | 344         | 353        | 3.3               |

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

## MONTHLY ECONOMIC INDICATORS

|                                          | Latest month | Month ago | % Change year ago |
|------------------------------------------|--------------|-----------|-------------------|
| INDUSTRIAL PRODUCTION (June) total index | 116.8        | 116.3r    | 5.8               |
| CAPACITY UTILIZATION (June)              | 83.9%        | 83.6%r    | 3.5               |
| RETAIL SALES (June) billions             | \$183.8      | \$182.7   | 6.6               |
| CONSUMER PRICE INDEX (June)              | 148.1        | 147.7     | 2.6               |

Sources: Federal Reserve, Census Bureau, BLS

## MONETARY INDICATORS

|                                     | Latest week | Week ago   | % Change year ago |
|-------------------------------------|-------------|------------|-------------------|
| MONEY SUPPLY, M1 (7/4)              | \$1,146.4   | \$1,149.3r | 6.4               |
| BANKS' BUSINESS LOANS (7/6)         | 297.6       | 294.5r     | 6.9               |
| FREE RESERVES (7/6)                 | 924r        | 624r       | -6.5              |
| NONFINANCIAL COMMERCIAL PAPER (7/6) | 154.1       | 154.2      | -3.5              |

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

## MONEY MARKET RATES

|                                        | Latest week | Week ago | Year ago |
|----------------------------------------|-------------|----------|----------|
| FEDERAL FUNDS (7/19)                   | 4.19%       | 4.23%    | 3.09%    |
| PRIME (7/20)                           | 7.25        | 7.25     | 6.00     |
| COMMERCIAL PAPER 3-MONTH (7/19)        | 4.66        | 4.82     | 3.19     |
| CERTIFICATES OF DEPOSIT 3-MONTH (7/20) | 4.60        | 4.81     | 3.16     |
| EURODOLLAR 3-MONTH (7/15)              | 4.80        | 4.76     | 3.18     |

Sources: Federal Reserve, First Boston





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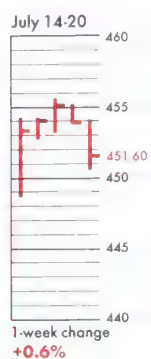
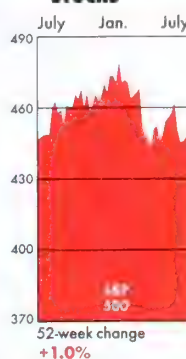
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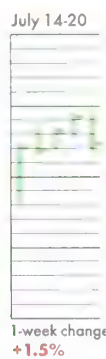
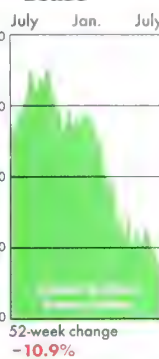
## COMMENTARY

Summer rally was building steam. Fed Chairman Alan Greenspan, in congressional testimony, ruled out the possibility that the central bank would have to hike short-term interest rates again later this year. Nonetheless, Treasury bonds edged to hold on to about half their gains, and stocks finished the week slightly in the black. The big gains were abroad. On the Pacific, stocks in Hong Kong were up 4%, and Australia, 5%. In Europe, German stocks rose 4.1%, French equities, 3.5%.

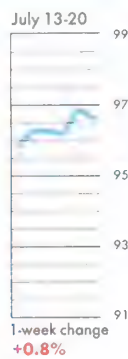
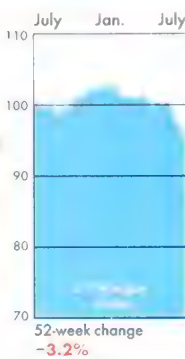
## STOCKS



## BONDS



## THE DOLLAR



## MARKET ANALYSIS

| STOCKS                              | Latest | % change<br>Week | % change<br>52-week |
|-------------------------------------|--------|------------------|---------------------|
| DOW JONES INDUSTRIALS               | 3727.3 | 0.6              | 4.8                 |
| SIZE COMPANIES (S&P MidCap Index)   | 168.8  | 0.2              | 2.4                 |
| SMALL COMPANIES (Russell 2000)      | 243.7  | 0.0              | 3.7                 |
| TECHNOLOGY COMPANIES (Russell 3000) | 259.2  | 0.4              | 0.7                 |

| LEADING STOCKS                  | Latest   | % change (local currency)<br>Week | % change<br>52-week |
|---------------------------------|----------|-----------------------------------|---------------------|
| DOW JONES (FINANCIAL TIMES 100) | 3077.2   | 2.4                               | 9.3                 |
| NIKKEI (NIKKEI INDEX)           | 20,780.8 | 1.2                               | 3.5                 |
| TSE (TSE COMPOSITE)             | 4181.7   | 1.0                               | 8.1                 |

| FUNDAMENTALS                 | Latest | Week ago | Year ago |
|------------------------------|--------|----------|----------|
| 90-DAY TREASURY BILL YIELD   | 4.39%  | 4.50%    | 3.14%    |
| 30-YEAR TREASURY BOND YIELD  | 7.54%  | 7.67%    | 6.63%    |
| S&P 500 DIVIDEND YIELD       | 2.79%  | 2.81%    | 2.80%    |
| S&P 500 PRICE/EARNINGS RATIO | 19.5   | 19.9     | 21.2     |

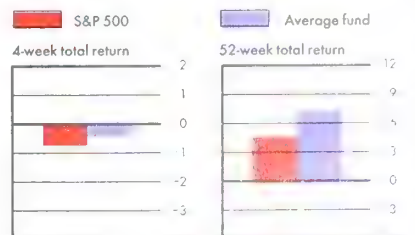
| TECHNICAL INDICATORS                      | Latest | Week ago | Reading  |
|-------------------------------------------|--------|----------|----------|
| S&P 500 200-day moving average            | 460.9  | 461.0    | Negative |
| Stocks above 200-day moving average       | 33.0%  | 30.0%    | Positive |
| Speculative sentiment: Put/call ratio     | 0.41   | 0.45     | Positive |
| Insider sentiment: Vickers sell/buy ratio | 1.01   | 1.10     | Positive |

## INDUSTRY GROUPS

| E-MONTH LEADERS                | % change |          | Strongest stock in group | % change |          | Price  |
|--------------------------------|----------|----------|--------------------------|----------|----------|--------|
|                                | 1-month  | 12-month |                          | 1-month  | 12-month |        |
| ALUMINUM                       | 7.0      | 18.3     | ALCOA                    | 9.9      | 16.9     | 82     |
| MANUFACTURED HOUSING           | 6.7      | 13.9     | FLEETWOOD ENTERPRISES    | 7.8      | 14.0     | 22 3/8 |
| TOBACCO                        | 6.2      | 9.1      | PHILIP MORRIS            | 7.9      | 13.9     | 54 3/8 |
| OIL AND GAS DRILLING           | 6.0      | -10.5    | ROWAN                    | 7.5      | -6.5     | 9      |
| CLOTHING MANUFACTURING         | 5.5      | 3.6      | SPRINGS INDUSTRIES       | 11.3     | -9.5     | 33 3/8 |
| E-MONTH LAGGARDS               | % change |          | Weakest stock in group   | % change |          | Price  |
|                                | 1-month  | 12-month |                          | 1-month  | 12-month |        |
| MACHINE TOOLS                  | -19.9    | -19.4    | GIDDINGS & LEWIS         | -28.0    | -23.9    | 16 3/4 |
| DRUG CHAINS                    | -8.2     | -0.4     | WALGREEN                 | -11.4    | -7.1     | 35 7/8 |
| PACKAGING                      | -7.5     | 7.4      | ROADWAY SERVICES         | -9.2     | 4.2      | 61 1/2 |
| COMPUTER SYSTEMS               | -6.4     | 19.1     | IBM                      | -10.8    | 21.9     | 55 5/8 |
| OIL EXPLORATION AND PRODUCTION | -5.8     | -16.9    | BURLINGTON RESOURCES     | -9.8     | -15.8    | 40 1/8 |

## MUTUAL FUNDS

| LEADERS                                | 4-week total return | % | LAGGARDS                               | Four-week total return | % |
|----------------------------------------|---------------------|---|----------------------------------------|------------------------|---|
| AMERICAN STRATEGIC INVESTMENTS         | 5.3                 |   | MONITREND GOLD                         | -13.4                  |   |
| MERRILL LYNCH TECHNOLOGY A             | 5.2                 |   | INVESCO STRATEGIC GOLD                 | -9.4                   |   |
| IDEALITY SELECT SOFTWARE & COMPUTER    | 5.0                 |   | INVESCO STRATEGIC ENVIRONMENTAL SVCS.  | -8.7                   |   |
| 52-week total return                   |                     | % | 52-week total return                   |                        | % |
| AMERICAN STANLEY INSTL. EMERG. MARKETS | 46.7                |   | MONITREND GOLD                         | -41.3                  |   |
| FAMCO EMERGING MARKETS INSTL.          | 44.9                |   | STEADMAN OCEANOGRAPHIC TECHNOLOGY      | -23.2                  |   |
| AMERICAN STANLEY INSTL. ASIAN EQUITY   | 44.7                |   | KEYSTONE AMERICA HARTWELL EMERG. GR. A | -21.1                  |   |



## RELATIVE PORTFOLIOS

| Relative amounts                                              | Foreign stocks            | U.S. stocks               | Money market fund         | Gold                     | Treasury bonds           |
|---------------------------------------------------------------|---------------------------|---------------------------|---------------------------|--------------------------|--------------------------|
| represent the present value of \$10,000 invested one year ago |                           |                           |                           |                          |                          |
| each portfolio                                                |                           |                           |                           |                          |                          |
| percentages indicate 1-day total returns                      | <b>\$12,135</b><br>+0.54% | <b>\$10,356</b><br>+1.32% | <b>\$10,201</b><br>+0.05% | <b>\$9,802</b><br>-0.43% | <b>\$9,686</b><br>+2.59% |

Data on this page are as of market close Wednesday, July 20, 1994, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close.

July 19. Mutual fund returns are as of July 15. Relative portfolios are valued as of July 19. A more detailed explanation of this page is available on request. r = revised



## ANTITRUST, THE SMART WAY

**A**t a time when corporate mergers are dominating the headlines, the resolution of the Microsoft Corp. case provides a sensible model for antitrust policy in today's economy. In essence, the Clinton Administration's antitrust team was able to use antitrust policy as a scalpel rather than a bludgeon. The settlement, signed on July 15, requires Microsoft to stop some of the sales practices that Justice says it was using to bully competitors and customers, but it doesn't impair the software powerhouse's ability to innovate.

What lessons can be drawn from the Microsoft case? In contrast to the torpor of the Reagan era, this Administration is right to aggressively investigate allegations of monopolies and other activities that squelch competition. Although the Microsoft investigation was initiated during the Bush years, Anne K. Bingaman, Assistant Attorney General for antitrust policy, has picked up the pace, starting scores of new investigations. The mere knowledge that someone is standing watch may deter some companies from stepping over the line.

Second, in an era of global competition, the Justice Dept. used sound judgment by working closely with European governments. This also frees companies from having to defend the same case twice. Finally, the Justice Dept. deserves credit for employing sanctions that are sparing and precise. To be sure, some of Microsoft's competitors might have been happier if the Justice Dept. had explicitly prohibited Microsoft from using its dominance in operating systems to achieve an advantage for its spreadsheet and other applications programs.

But coming down too hard on Microsoft, one of the country's technological leaders, would have been a mistake. In the fast-changing and highly competitive software industry, wielding antitrust tools gingerly is all the more desirable and effective. And if Microsoft oversteps the boundaries of fair competition in the future, the Justice Dept. can take additional action against the company. The Clinton Administration has found a good balance between preserving competition and fostering innovation.

## AMERICA NEEDS GATT NOW

**A**t the ferocious debate over NAFTA showed, selling free trade to Congress isn't easy. Now it's the General Agreement on Tariffs & Trade (GATT) that's struggling against a strong head wind. With the free trade pact up for approval, Congress and the Clinton Administration are wrangling over how to replace the \$12 billion in tariff revenues that would be lost over the next five years if the U.S. approves GATT. While the Administration has proposed a

package of revenue hikes and spending cuts, congressional leaders have been unwilling to push for what amounts to enabling legislation for GATT.

This foot-dragging has encouraged every interest group that can find some minor flaw in GATT to crawl out of the woodwork. Environmental and consumer groups worry that GATT sets up a new World Trade Organization that could weaken U.S. environmental and safety laws, such as fuel-efficiency standards. Conservative nationalists fear that GATT will force the U.S. to relinquish sovereignty to an international organization.

But free trade is far too important to the country's economic future to be caught up in these side issues. Far more than ever, the U.S. depends on trade to fuel growth. The fastest-growing markets are overseas, and U.S. companies have learned how to thrive on the free flow of goods and ideas across borders. Any hesitancy about approving the General Agreement would only encourage free trade's opponents, both at home and abroad. Congress should pass GATT now.

## BUSINESS SHOULD IGNORE THE ECONOMIC CASSANDRAS

**E**ach week, it seems, the U.S. faces another so-called economic "crisis." First it was inflation that was said to be threatening to run amok. Then rising interest rates were going to stall growth. Most recently the big scare was the falling dollar, a supposed sign of the U.S. economic weakness.

This crisis mentality emanates from the financial markets, which have been buffeted by rising interest rates, losses on derivatives, and falling profits. It would be a shame if a dyspeptic Wall Street convinced the rest of America that there is something fundamentally wrong with the economy.

In spite of all the doom-saying, the expansion, now 48 months old, keeps chugging right along. Inflation is subdued, and companies are adding more jobs. The federal budget deficit for 1994 is now projected to be only \$190 billion, far below the earlier estimate of \$235 billion. Corporations are reporting profits in the second quarter that were 22% over the same period last year. And net investment in new equipment has finally hit 3% of gross domestic product, a level that can support long-term productivity growth. Even if growth fails to keep pace in the second half of 1994, the slowdown will lay the foundation for a sustained rebound in 1995.

But this optimism could be derailed if Wall Street's gloomy prophets beat down the animal spirits of U.S. businesses. It is vital for U.S. companies to break their old habit of slashing spending on much-needed equipment and new capacity when sales temporarily slow. If Corporate America should have learned anything from the 1980s, it's the necessity of continued investment, even if growth pauses. That's the only way to ensure that the U.S. will keep its place in the global economic sweepstakes.





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NESS WEEK

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HOW COMPANIES ARE RETHINKING THE  
MANAGEMENT BUZZWORD OF THE 1980s

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A photograph of a balcony with a wooden railing and a dark cushioned chair. The balcony overlooks a lush green lawn, a large evergreen tree, and a rocky coastline with waves crashing against the shore under a blue sky. The text is overlaid on the right side of the image.

{ Think of someplace private.

Someplace quiet.

Someplace comfortable,

Someplace truly your own. }

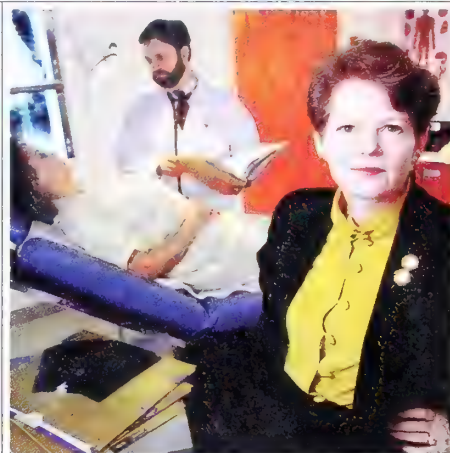




**50 THEY SAID, HE SAID AT KIDDER:**  
GARY LYNCH IS PROBING THE JETT  
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**20 REMAKING BIG OIL:**  
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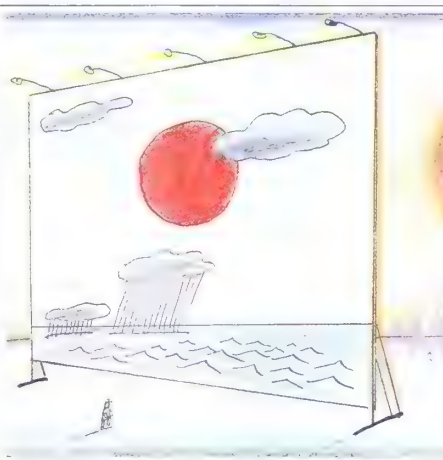
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# Up Front

TALK SHOW

*This job is not much fun. I can't think of any fun I've had in the past two years.*

—Digital Equipment coo Robert Palmer, after his long-troubled company posted a \$1.7 billion fourth-quarter loss

EDITED BY LARRY LIGHT AND JULIE TILSNER



**SALES BOOM:** Sets are moving faster than glass suppliers can keep up

## SUPPLY AND DEMAND

### TV REALLY IS A LOW-GLASS ACT

America's love affair with TV is burning hotter than ever. Sales of conventional sets—those that don't project—ran at a record annual rate of 26.7 million in the second quarter, says the Electronic Industries Assn. (EIA).

This isn't great news to makers of glass parts for picture tubes, the heart of the set. Demand is overwhelming the capacity of the U.S.-based companies that sell them: Techneglas (a unit of Japan's Nippon Electric Glass) and Corning Asahi Video (a joint venture of Corning and

Japan's Asahi). Thomson Consumer Electronics produces glass, but only for its own General Electric and RCA sets. Most sets sold in the U.S. have tubes made domestically.

Techneglas and Corning Asahi are greatly increasing imports of glass from Japan and Germany—not good, given the dollar's weakness. Imports of finished tubes and sets are up, too.

Why not just increase domestic production? Not so easy. It costs from \$200 million to \$500 million to build a plant, reports EIA. The two companies did boost prices about 5% in January. But with TV prices so low, they don't plan any further hikes until next year. *Peter Coy*

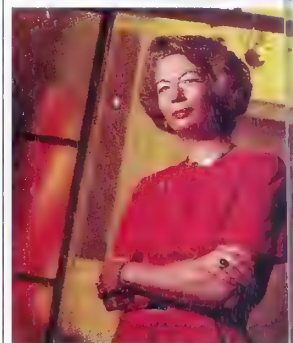
## THE FEDS

### HOW THE MICROSOFT PACT NEARLY CRASHED

Justice Dept. trustbuster Anne Bingaman has won acclaim for her judicious settlement with Microsoft, ending its alleged anticompetitive activities without hamstringing its world-class operations. But antitrust targets are learning the scrappy litigator can be far from judicious in the midst of battle. People close to the talks say her angry outburst nearly scuttled the accord at the last minute.

As agreement seemed near in the wee hours of July 15 in Washington, Bingaman demanded that the company commit to a settlement. But Microsoft lawyers wanted to give Chairman William Gates, then in Idaho, a chance to review it later that morning. On the phone to Gates, Bingaman threatened to sue Microsoft if

he didn't sign. When Gates insisted on more time, Bingaman stopped the talks at 11 a.m. "I said: 'We're through,'" she says. "You'd have to get out of your mind to negotiate twice." Bingaman, who decided she lost her temper, later



**BINGAMAN:** Tried to rush Gates

started the process. Gates needed enough time to go over everything, and both parties signed the final papers. Bingaman says she doesn't regret her actions, which she deems justifiable. *Catherine Yu*

## THE DEAL MILL

### NO MATTER WHAT, SAM, DON'T LOOK DOWN

Investor extraordinaire Sam Zell, a.k.a. the Grave Dancer, has made a fortune reviving good companies with bad balance sheets, such as drug-store chain Revco. But what if the problem isn't just financial? Like, say, an airline.

Zell's investment firm, Zell/Chilmark, announced July 25 that it is buying 90% of troubled Midway Airline for \$25 million. With the industry losing money and tough competition from so many other low-cost carriers, as Southwest Airlines, he has a problem that financial revamping alone can't fix. "Zell is about to learn his lesson," says consultant Michael Boyd.

But Zell figures on winning over folks who like the reduced hassle at Chicago's smaller, close-in Midway Airport. From there, his five-plane airline flies to destinations that Southwest shuns, such as Denver, New York's LGA, and Washington National. *Susan Chan*



**ZELL:** W

## REALITY CHECK

**PLANEMAKERS SAY** that curbing legal bills will revive the small-plane business, which has taken a nosedive of late. In 1979, manufacturers made 17,032 small planes; by last year, production had plummeted to 964. Planemakers put

most of the blame on product-liability suits. The legal burden is the chief reason Piper says it is in Chapter 11. As a result, Congress is poised to exclude from suits piston planes older than 15 years, turboprops over 18, and jets over 22.



**SINGLE PROP:** Sales plunge

**IN REALITY,** the problems are more fundamental. There's no denying that the suits are onerous (40% of them involve 15-year-old-plus planes), costing up to \$500,000 in legal bills even for those a planemaker wins. But lobbying hype has exaggerated the suits' impact on the industry. More important is that

most of the production decline has come in single-engine planes, which sell for around \$125,000 each. Demand for new single-engines is down because they have seen few technological improvements in the past 30 years to offset the sticker-price advantage of secondhand models. *Christina Del Valle*

If Alex Crowley had an IBM PC, he could call in the middle of the night  
and ask us about hard drive partitioning, IRQ conflicts, memory management and  
on behalf of a friend, of course, where the on/off switch is.



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## CEOs NO LONGER HAVE ONE-PARTY WALLETS

Highly paid executives are normally a Republican bunch. But some are getting bipartisan—at least in their campaign donations. Of Corporate America's 30 best-paid executives, as listed in BUSINESS WEEK's annual pay survey, only six have given exclusively or primarily to the Grand Old Party so far in the 1994 election cycle. Federal records show that's a sharp drop from two years ago. The number of top execs giving to both parties has doubled (table). Example: Frank Ca-

rent fortunes may be wobbly, but Democrats still control the White House (unlike in 1992) and Congress.

Which pol is the execs' favorite? At \$5,500, it's Bernadine Healy, ex-chief of the National Institutes of Health, who lost Ohio's GOP Senate primary last spring. Representative Jim Cooper (D-Tenn.), another Senate hopeful, is the top Democrat, at \$4,300. The biggest giver is also the best-paid exec: Disney's Michael Eisner, whose \$20,000 has largely gone to Dems. *Richard S. Dunham*

## SLUGFESTS

### FOR PC NETWORK TITANS, IT'S A GANG WAR

There's a cybernetic civil war starting, touched off by the recently announced merger of computer-network outfits Wellfleet and SynOptics. Alarmed, the two other U.S. networking leaders, Cisco and Cabletron, are stepping up their three-year-old collaboration to thwart the new threat.

First sally: Cisco and Cabletron are offering free technological support to Wellfleet-SynOptics customers who defect. Not bad, since such service can run from \$700 to \$1,500 per job. Plus, Cisco and Cabletron will offer up to a 30% discount for those who trade in Wellfleet and SynOptics products. They hope to raid Wellfleet and SynOptics customers while the merger is being put into effect over the

## DRAWN AND QUARTERED



next three months. This early, there are no takers for the Cisco-Cabletron enticements, although they report interest. The upshot, says Cabletron Chairman Craig Benson, will be "blood in the water."

How fearsome an obstacle will Cisco and Cabletron be? Cabletron is a close second to SynOptics, the world leader in hubs, which manage the links among a cluster of desktops.

And Cisco is No. 1 in routes which connect the clusters, No. 2 Wellfleet.

SynOptics and Wellfleet say they aren't worried, alleging that Cabletron is behind a curve in new technology, which Cabletron denies. Besides, it's costly for customers to switch network providers. And the networking markets are growing, so it might well be room for all to prosper.

## TRADE TRENCHES

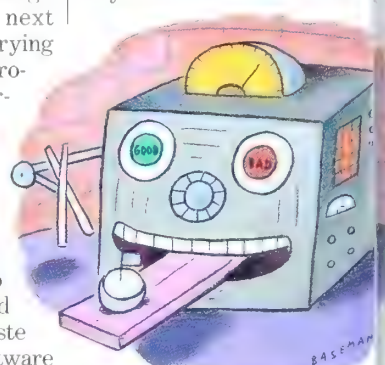
### FINALLY, YANKEE RICE FOR JAPANESE PALATES?

Japan has long barred American rice because of its taste. Protecting its rice farmers has a lot to do with this, too. Tokyo, though, has pledged to let more foreign foodstuffs in starting next year, so Washington is trying to figure out how to produce rice that will overcome the resistance of Japanese consumers, who spend \$45 billion per year on the staple.

The key is a bread-box-size machine, used by Japanese officials to detect flavor flaws, called the Neuro-Fuzzy Rice Taste Tester. Its fuzzy-logic software makes sense of complex phenomena—taste appeal, for instance. The tester uses near-infrared light to measure such things as protein and moisture in rice. On a 0-to-100 scale, Japanese rice rates 75 and up. But the American stuff is in the unacceptable 65-to-75 range. Even with

U.S. rice allowed in, odds are Japanese shoppers would shun it with scores like this.

Now, the U.S. Agriculture Dept. and Texas A&M University have their own Neuro-



Fuzzy gizmo, on loan from a Japanese maker. American grown rice will be tested after the fall harvest. That's good news for American rice growers, who already export nearly two-thirds of their 8 million-ton yearly crop.

*Stephanie Anderson/Fores*



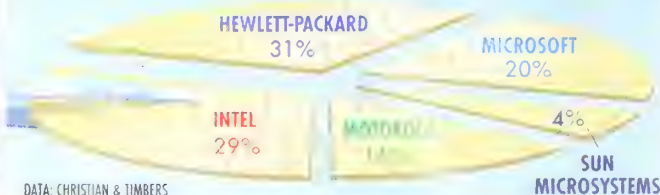
houet, CEO of Pittsburgh-based Mellon Bank, has given to both Senator Harris Wofford (D-Pa.) and GOP challenger Rick Santorum.

Why the bipartisan spirit among these big earners? Pragmatism. Bill Clinton's cur-

## THE BIG PICTURE

### TOP OF THE TECH HEAP

Which high-tech outfits turn out the best managers and CEOs? A recent survey asked 100 senior execs of technology companies for the one place they would most like to recruit senior executives. IBM, once a top source of talent to other companies, wasn't mentioned.

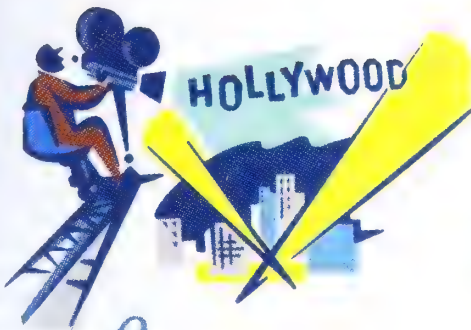


## FOOTNOTES

Inflation increase, first half of 1994 vs. year-ago period: For legal services, 2.4%; for financial services, 10.5%

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THE REAL STATS ARE STAGGERING

In his commentary "Uncle Sam's stats: Call them unreliable" (Top of the News, July 18), Howard Gleckman decries the lack of accurate data on the size of U.S. software exports. We find that even Gleckman's estimate of the value of such exports at \$4 billion is way too low. In fact, International Data Corp.'s estimate is that U.S. vendors received total revenues from sales of packaged software (i.e., not including custom software) of nearly \$52 billion in 1993—of which they exported over \$24 billion.

As he points out, Microsoft Corp. alone is responsible for over \$2 billion of this, but IBM exported over \$6 billion worth. More startling is that hundreds of other, smaller, independent software vendors exported more than \$12 billion worth.

R. Paul Mason  
Software Research Group  
International Data Corp.  
Framingham, Mass.

THE SGI CULT WON'T SAVE IT  
FROM FASTER CHIPS

Silicon Graphics Inc. may be flying high now ("The gee-whiz company," Cover Story, July 18), but the future is bleak. I design integrated circuits and use Hewlett-Packard Co. workstations for their speed, but I use my 486-based PC more than my workstation. Why? Because even for chip designers like me, computers must now meet a range of needs, from writing a memo, running a spreadsheet, and providing E-mail to running sophisticated modeling and simulation programs at high speed. Even if workstations maintain their speed advantage, their high cost, lack of versatility, and lack of software are rapidly relegating them to "server" status.

Silicon Graphics' strong suit is its graphics, which are more difficult to deliver from a server. But video speeds in PCs have increased by about two orders of magnitude (100 times) in the past five years. As thousands more engi-

## CORRECTIONS &amp; CLARIFICATIONS

The International R&D Scoreboard (June 27) omitted these companies: Sweden's L. M. Ericsson, with 1993 research and development spending of \$1.407 billion, should have ranked No. 22; Sweden's Investor, with R&D spending of \$278 million, should have ranked No. 72; Germany's SAP, with R&D spending of \$162 million, should have ranked No. 105.

neers begin working on faster graphic chips for PCs in the next few years, PC video speed will approach SGI's speed, at a small fraction of the cost. When combined with new operating systems and inexpensive software, even SGI's cult won't be enough.

Mike Palmer  
Laguna Hills, Calif.

WILL UNIONS USE PROXY BATTLES  
JUST FOR BETTER BARGAINING?

There is an even greater danger of labor-oriented shareholder activism than your article "Labor flexes its muscles—as a stockholder" (The Workplace, July 18) suggests, since public-sector pension funds may soon develop a rationale for supporting these labor efforts.

The California Public Employees Retirement System, the \$80 billion bellwether among public-sector funds, has announced that it will start making investment decisions in part on the basis of how companies treat their employees. Labor Secretary Robert B. Reich, who regulates the pension funds under the Employment Retirement Income Security Act (ERISA), has encouraged others to follow suit.

But the political officials and public sector funds could easily turn their reasoning into a pretext for supporting proxy campaigns based on union grievances.

David F. Shaffer  
President

The Public Policy Institute of New York State Inc.  
Albany, N.Y.

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## THE CEREAL COUPON CUTBACK MAY BE CLIPPING CUSTOMERS

read with interest your article "The nervous faces around Kellogg's breakfast table" (Top of the News, July 18). Every article I have seen regarding the cereal business has reported that General Mills Inc. recently decided "to drop its prices." On the surface, this is true. However, a more in-depth analysis indicates it may translate into overall higher prices for consumers. The following example demonstrates this point.

Under the former higher-promotion and higher-price policy, coupon-clipping customers could purchase a \$3 box of cereal for \$2.25, using a 75¢ coupon. However, under the new marketing scheme, the cutback in promotions and the lack of coupons result in the consumer paying \$2.67 (the straight 11% price decrease). This is 42¢ more, or a 19% increase in price over the \$2.25 the consumer used to pay. Who benefits from this so-called price drop? The manufacturer benefits—not the consumer.

Alan M. Schultz  
Minneapolis

## HERE IS LAW IN THE CABLE JUNGLE

Your article "Information highway-men" (Finance, June 27) performed commendable service in alerting potential investors to wireless cable scams. But we must point out that financing for most legitimate wireless cable systems is done through the public issue of stocks, bonds, or other bona fide instruments, which are regulated by the Securities & Exchange Commission and for which prospectuses must be issued—not by boiler-room telemarketers offering partnerships which produce the scam victims you wrote about.

Joel A. Strasser  
Director, Corporate Communications  
People's Choice TV Corp.  
Shelton, Conn.

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## THE WAGES OF GUILT: MEMORIES OF WAR IN GERMANY AND JAPAN

By Ian Buruma

Farrar Straus Giroux • 330pp • \$25

# GERMAN REMORSE, JAPANESE DENIAL

**O**n July 14, Bastille Day, 200 German troops marched down the Champs-Élysées as part of a four-nation military parade. Some older Frenchmen were horrified to see soldiers from across the Rhine on the boulevard where Hitler's troops had once marched, but politicians hailed the event as a symbol of the new Europe.

For Germany's old World War II ally in Asia, a comparable event remains unthinkable. Even the idea of Japanese soldiers acting as U.N. peacekeepers in Cambodia worries Asian neighbors. They needn't look far for evidence that Japan hasn't changed: Consider Shigeto Nagano, the 71-year-old retired general who was forced to resign as Justice Minister in May after denying that the 1937 Rape of Nanking ever happened.

Of course, Germany is France's NATO ally and European Union partner, while Japan has no military or economic alliance with its neighbors. But that doesn't explain why the two have radically different relations with the nations they once occupied. In *The Wages of Guilt: Memories of War in Germany and Japan*, Ian Buruma seeks an explanation in the way the peoples and governments of the main Axis powers have dealt with the war's legacy. With both nations facing internal and foreign pressure to become greater forces in international relations, this is more than an academic question.

Few Western writers are better qualified to take on this subject. Born in Holland before the Nazi invasion, Buruma has written extensively about Japan and its role in East Asia. For this book, he travels to Berlin and Tokyo, with side trips to such killing grounds as Auschwitz and Nanking. Examining everything from concentration camps and war memorials to novels and movies, he asserts that many Germans have faced up to their past—and have expressed remorse for wartime atroc-

ities—in a way most Japanese have not.

Although the book is divided equally between the two nations, the Japanese sections are more compelling, largely because Buruma finds many Japanese in a state of denial about the war. To visit Japanese war memorials as he depicts them is to enter a time warp. At Tokyo's Yasukuni Shrine, for example, displays glorify troops "liberating" East Asia from colonialists and communists. A Shinto priest there tells Buruma "the Asian people are still grateful." On the island of Kyushu, at a memorial to kam-

anese, believing their nation had endured the war's greatest horror, saw reason to feel guilty. But Buruma finds his answer in political events. During the U.S. occupation, General Douglas MacArthur, worried about Japan's stability as the cold war loomed, decided the Emperor Hirohito—in whose name Japanese troops had rampaged through East Asia—need not face the war-crimes tribunal. Sparing him meant symbolic acquittal for almost everyone else, says Buruma. Hirohito "had been formally responsible for everything, and by holding him responsible for nothing, everybody was absolved."

In addition, Buruma notes, many of Japan's postwar leaders had helped spread Imperial Japan's wartime vision of a Greater East Asia Co-Prosperty Sphere. Small wonder, then, that they didn't want to acknowledge war crimes. Here, Buruma draws a contrast to Germany, where Erich Honecker in the East and Willy Brandt in the West earned credibility by opposing Hitler. "Sure, the postwar order was not set up by Japanese who inherited the mantle of resistance against the ancien régime, feelings about the past are bound to be more ambivalent than is the case in Germany, East or West."

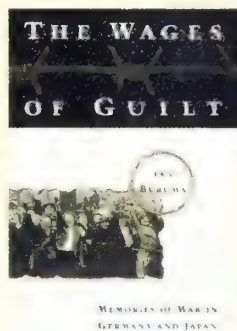
Not all Japanese were so willing to twist the record. One of the book's shortcomings is Buruma's failure to devote more than a few words to Okinawa, the southern island chain whose inhabitants suffered tremendous losses during the war. Okinawans long remained bitter toward the Japanese government. By leaving them out, Buruma misses the chance to air views not often heard in other parts of Japan.

Buruma also ends on an overly optimistic note. The fall of the Liberal Democratic Party in 1993 cheers him, proving that "the rascals can be thrown out." But as the new coalition of the LDP and the Socialists shows, the rascals are back. And what of bureaucrats who censor history texts? Or the handlers who recently refused to let Emperor Akihito go through with a planned visit to Pearl Harbor? Throwing them out won't be so easy. And while they're around, Japan will be hard-pressed to convince Asian neighbors that it can be trusted.

BY BRUCE EINHORN

*Einhorn edits Asian stories for BUSINESS WEEK.*

**B**lind to the brutal consequences, many in Japan see no reason to feel guilty about aggression in the war



ikaze pilots who died for the Emperor, the museum director says the flyers "sincerely believed in peace."

Despite his disgust at such self-delusion, Buruma is no Japan-basher. And he avoids the tendency of many Western writers to explain the behavior of Japanese and other Asians by casting them as Oriental exotics. Do differences in culture explain why German schoolchildren read all about the concentration camps while Japanese students get only brief, sanitized accounts of Nanking and other atrocities? Buruma rejects the argument, popularized by anthropologist Ruth Benedict, that Japanese—unlike Germans, with a Judeo-Christian "guilt culture"—have a "shame culture" that makes it impossible for them to admit responsibility for what they and their countrymen did.

After Hiroshima, of course, many Jap-



EDITED BY STEPHEN H. WILDSTROM

## DATA PRIVACY: A WIN FOR BUSINESS

Software publishers are elated. Privacy advocates are sulking. But U.S. business may be the real winner from the Clinton Administration's abrupt move away from a plan that would have made it easier for the government to eavesdrop on encrypted data transmissions. If the Information Superhighway's business route is ever to be built, companies need a way to protect sensitive data from prying eyes and to provide the digital equivalent of signatures to make electronic documents legally binding. Encryption can do both (3W—July 4). But controversy over how private encryption can be used has slowed the development of the needed systems.

At the heart of the controversy is a technique called escrowed-key encryption, popularly known as Clipper. Under the Administration's original plan, Clipper would have let users encode voice and data communications. Government agencies would have had to escrow the keys needed to read messages and handed over the keys to intelligence and law-enforcement agencies only in response to court orders. In the interest of national security, severe restrictions were put on the export of all other encryption technologies.

Business reaction to Clipper was overwhelmingly hostile. The major objections: The technology would be cumbersome because it would be available only on a special

chip, not in software. It was impossible for private experts to assess how secure the classified computer program was. Executives and privacy advocates alike feared that the government would abuse the key-escrow system. And Clipper was unacceptable to foreign governments, which would not be able to read encrypted messages. In a glo-

Vice-President Al Gore said Clipper technology would be limited to scrambling telephone calls. Government will work with industry on alternative ways to guard data communications. Among his promises: The computer code for a new encryption system will be unclassified, not limited to a secret chip. Usage will be voluntary. The technology can be exported. And private institutions might replace the government as escrow agents for the keys.

**HOW PRIVATE?** The Administration's move drove a wedge between Clipper's privacy opponents and its business foes. Robert Holleyman,

president of the Business Software Alliance, praised Gore's letter as "substantial progress." Privacy advocates still demand the complete abandonment of escrowed encryption. Gore's letter is "not a victory for freedom or privacy," declared the Electronic Privacy Information Center. But the Administration has conceded most of the key points. Most important: Gore's pledge that escrowed encryption will be voluntary assures that people can encode messages in ways the government cannot read. A concern for business is how long it will take to develop an encryption system that meets the Administration's new standards. The chore would go much faster if Clipper's computer code, Skipjack, could be used as the starting point. But the hypersecret National Security Agency, which wrote Skipjack, may refuse to declassify it. In addition, setting up a trusted, private key-escrow organization will be difficult. The international data highway is still far from reality. But the Administration has at least cleared the right-of-way.

S.W.



Cantwell  
(right) on  
the Hill

### HOW THE CHANGES WILL HELP

- Encryption can be done by software, not just by a government-approved secret chip, making the system far more flexible.
- Law-enforcement and national security agencies are less likely to abuse their access to coded messages.
- The technology can be exported.

bal economy, this was a severe limitation.

A campaign, led by the major software publishers in the Business Software Alliance and groups such as the Electronic Frontier Foundation, which advocates electronic free speech, forced a turnaround. The climax came on the day that the House was to vote on a measure, drafted by Representative Maria Cantwell (D-Wash.), to ease encryption export restrictions.

In a letter to Cantwell,

## BULLETIN BOARD

### SECURITY

#### BACKING UP—ONTO TAPE

A few years ago, a 40-megabyte hard drive was considered a lot of storage room for a personal computer. Today, drives holding more than 300 megabytes are standard, and capacities of 1 billion bytes are far from rare. Not enough users, however, have thought about what happens when one of these monsters fails.



Floppy-disk backups, the traditional insurance, aren't much of an answer. Backing up a 340-megabyte drive requires more than 200 high-density floppies at about a buck apiece—and hours of your time.

A tape drive is a much better idea. One of the newest, the Iomega Tape250 (\$199), will copy up to 250 megabytes of files onto a quarter-inch data cassette. Two \$25 tapes will hold the full contents of all but the biggest disks. If you have the contents on tape, a hard-disk crash will still be a nuisance, but you'll be able to avert a catastrophe.

### SOFTWARE

#### CURTAINS DRAWN ON WINDOWS

There are two dark secrets surrounding Chicago, the code name for the long-awaited successor to Windows 3.1. One is how badly Microsoft will miss its Dec. 31 target for mass shipment of the new operating system. The other is what it will be called. Company sources indicate that the final name almost certainly won't be Windows 4.0 but decline to offer any hints.





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## HOW CLINTON IS BASHING THE BUCK

BY PAUL CRAIG ROBERTS



The dollar is under pressure because world investors have realized the Administration is prone to big-government, high-tax solutions. They seek greener pastures elsewhere

**T**he slumping dollar signals an international vote of no confidence in President Clinton's economic policy. This outcome could have been predicted by anyone except the demand-side economists who spent the decade of the 1980s agitating for high tax rates and easy money—a policy mix whose results are now in.

Clintonomics has brought us higher interest rates and a weaker dollar. Like its predecessor, the Clinton Administration does not understand the economic relationships that determine its fate. Economists in the Treasury and the White House believe that low interest rates are the key to economic growth and that a weak dollar is the solution to the trade deficit. They overlook the fact that the dollar is the reserve currency in which a vast amount of wealth is held and inflation-sensitive commodities are priced. Any policy that weakens the dollar causes a flight by investors. That, in turn, causes U.S. interest rates to rise sharply.

An Administration committed to a low-interest-rate policy is bound to revive inflation fears. The Federal Reserve keeps interest rates down by supplying reserves to the banking system in order to prevent the demand for loans from bidding up interest rates. There is a limit, however, to how long this policy can succeed. As bank reserves are converted into demand deposits, the growth in the money supply pushes up inflation. This is especially the case when easy money is combined with an increase in tax rates and regulation, which restrain the growth in real output.

Once the bond market deduces that the Fed is priming the economy by flooding the banking system with reserves, the expectation of inflation is enough to carry interest rates up and the dollar down. Foreigners are hypersensitive to any currency loss on dollar investments. A Japanese investor who bought U.S. bonds in 1985 paid 240 yen per dollar. If those bonds were sold today, they would fetch less than 100 yen per dollar.

**FATEFUL MOVE.** When it became clear earlier this year that the U.S. economy had picked up sharply in the fourth quarter of 1993, following three years of rapid reserve growth, interest rates moved up. The Fed followed that rise with four hikes in the federal funds rate, totaling 125 basis points. This stabilized the dollar for about a month, but it came under renewed pressure in the latter part of June and soon broke through the 100 yen mark.

If downward pressure on the dollar persists, the Fed will have to protect the reserve currency by draining reserves from the bank-

ing system. Otherwise it would risk a sell-off in dollar-denominated assets as investors try to protect themselves from a depreciating store of value. Any further threats from the Clinton Administration to use a depreciating dollar as a trade weapon against Japan would signal a potentially fatal ignorance among Clinton's policymakers.

**SKITTISH CAPITAL.** The dollar also is under pressure because investors have realized that Clinton favors big government "solutions," while other parts of the world, especially Asia and Latin America, are curtailing the scope of government and growing rapidly as a result. Equity investors have developed a global perspective, and they prefer markets where government is downsizing and the prospects for economic growth are good. Clinton's policies causes investors to see the U.S. as a relatively poor prospect. Moreover the First Lady single-handedly wiped \$50 billion off the value of pharmaceutical equities by demonizing the drug companies, and the Clintonian attack on the private health-care system reduces the value of medical research and new medical technology equities. Consequently, capital flows away from the dollar, keeping the currency under pressure.

The Fed could make dollars scarcer by draining reserves from the banking system. However, this move would not address all the various concerns of investors. To remain competitive in the global economy, the U.S. needs to reduce taxes on labor and capital. This would attract investment to the U.S. and strengthen the dollar. It also would help if Congress were to repeal hundreds of ill-considered laws that benefit special interests at the expense of the overall performance of the economy, and if thousands of counterproductive rules in the Code of Federal Regulations were removed.

The dollar's sharp drop could stabilize it for now, but the currency's woes are not over. The ruling ideology prevents the necessary tax and regulatory relief, and the Fed has to worry about a political backlash from the Democrats in Congress, whose solution to the problems they cause the economy is always lower interest rates.

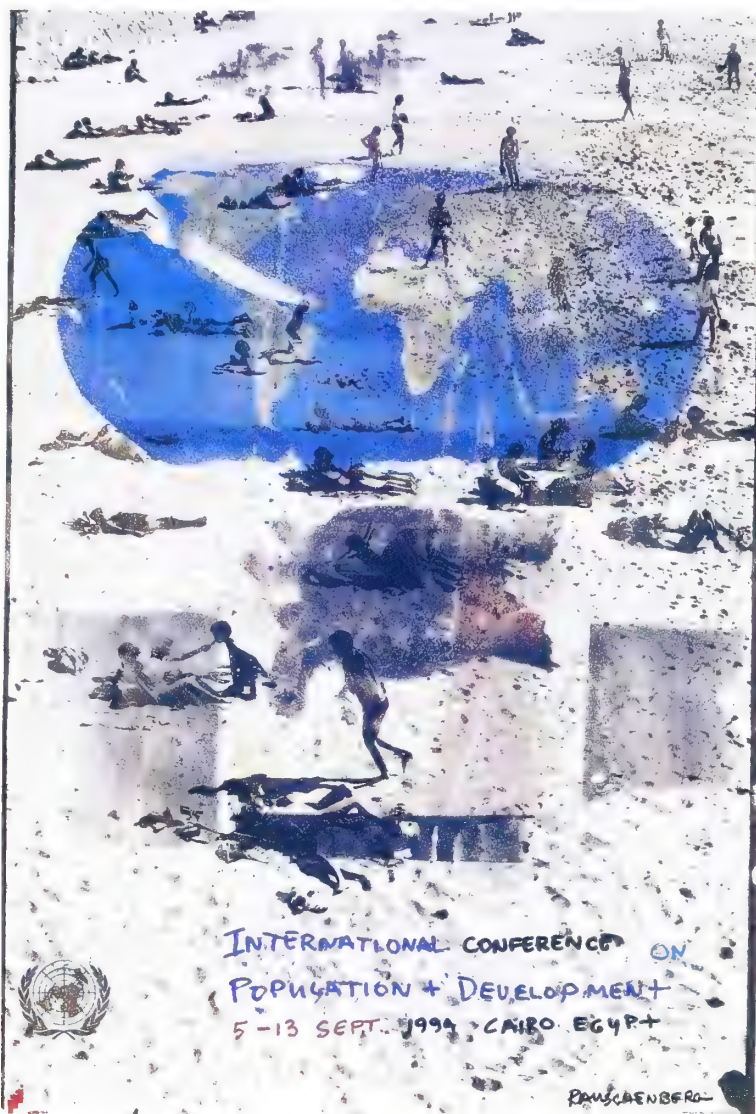
This leaves the foreign-exchange market as the arbiter of U.S. economic policy. If the situation continues to deteriorate, one wonders if spurned policymakers will attempt to fight the market's judgment with exchange controls. Such calls already are being heard. Indeed, the hubristic believers in big government need only this one last act to complete their self-destruction.

PAUL CRAIG ROBERTS IS JOHN M. OLIN FELLOW OF THE INSTITUTE FOR POLITICAL ECONOMY AND DISTINGUISHED FELLOW OF THE CATO INSTITUTE IN WASHINGTON, D.C.

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has called "one of the most important international events of the decade" - will produce an action plan on balanced global populations, environmental protection and economic growth through sustainable development with emphasis on women's rights and family-planning, quality primary education of the young and the inviolability of universal human rights.

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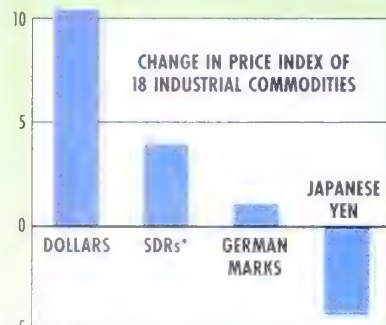
BY GENE KORETZ

## INFLATION DETECTIVES ARE ROUNDING UP THE WRONG SUSPECTS

If commodity prices are on the upswing, can inflation be far behind? That's one of the key questions bugging the financial markets and America's Federal Reserve these days. So far this year, the Commodity Research Bureau's spot price index of industrial raw materials has risen a hefty 12.7%. And the *Journal of Commerce's* more inclusive index of 18 industrial commodities is up nearly 11%.

Since most commodities are internationally traded, many U.S. investors have been quick to interpret the commodity-price surge as a sign that global demand pressures are building fast.

### FOUR WAYS OF LOOKING AT COMMODITY PRICES



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DATA: JOURNAL OF COMMERCE, NATWEST SECURITIES CORP

With recoveries overseas reinforcing the impact of the maturing U.S. expansion, they fear that costlier raw materials will soon affect final product prices and fan inflationary fires.

While economist L. Douglas Lee of NatWest Securities Corp. also detects growing inflationary risks, he claims that rising commodity prices are the wrong culprit. Output in other industrial nations is still severely depressed, he notes, and highly volatile materials prices often give false signals of impending inflation.

More important, Lee points out that currency shifts have distorted the significance of commodity-price changes. Although the cost of the *Journal of Commerce's* basket of industrial commodities is up 10.5% this year for U.S. purchasers, it has risen only 4% or so for global buyers and 1.1% for German buyers. For

Japanese purchasers, it has actually fallen about 4.4% (chart).

"The dollar-denominated rise in materials prices," says Lee, "is more related to the dollar's weakness than to escalating global demand pressures. It's premature to worry about global commodities inflation."

A more imminent threat, contends Lee, is U.S. labor costs. In both 1992 and 1993, wage restraint and strong productivity gains kept unit-labor cost increases below 2%. But in 1994, wages have picked up steam, and productivity has started to slow. As a result, unit-labor costs in the first quarter climbed at more than a 4% annual clip.

Further, productivity could well have declined in the second quarter, causing unit-labor costs to rise at a 3% to 4% rate again. That's because recent strong employment gains imply that the economy would have to have grown at a 5%-plus annual rate just to keep productivity flat, says Lee.

"The real inflation risk," he concludes, "is not commodity prices but the possibility that slowing U.S. productivity growth will push up unit-labor costs."

## THOSE FAT INVENTORIES MAY ALREADY HAVE SLIMMED DOWN

With May's big jump in U.S. business inventories, it's clear that inventory-building buoyed economic growth in the second quarter. Many observers, however, believe the buildup was involuntary—that is, it occurred not because producers and sellers were trying to fatten overly thin stocks but because slowing demand left them with more goods than they anticipated. And that suggests that the economy could slow sharply in the second half as producers scale back output to bring inventories back in line.

PaineWebber Inc. economist Maury N. Harris doubts that inventories are much of a problem, however. He notes that retail sales, while down in April and May, were up strongly in June in exactly the areas where retail stocks had been growing. May inventory gains of 1.9%, 1.5%, and 1% posted by the categories of building materials and hardware, general-merchandise stores, and auto dealers, respectively, were followed by sales rises of 2.7%, 1.5%, and 1.3% in June.

Thus, Harris believes that consumer purchases in June probably helped clear out much of the May inventory buildup at the retail level—lessening the chances of a coming inventory correction.

## KOREA'S EXPORT BOOM IS HURTING—AND HELPING—JAPAN

Long dependent on Japan for investment and technological knowhow, South Korea is now besting its benefactor in global markets—thanks to a soaring yen, reports economist Ellen T. Rodgers of Morgan Guaranty Trust Co. With the yen up 13% against the South Korean won in 1993 (and another 13% so far this year), Seoul was able to boost exports by 7.3%, helping to cut its overall trade deficit last year by nearly 70% to \$1.5 billion.

The upshot has been a surge in capital investment this year and a hefty pickup in the export of such high-tech goods as petrochemicals, electronics, machinery, and steel, which are also marketed by Japan. South Korean exports of semiconductors were up 43% in the first quarter over the same period last year, while autos and appliances posted 20% and 18% gains, respectively.

The irony is that Korea is heavily dependent on Japan for capital goods and components of its exports. Thus, Korea's export boom, while hurting Japan in other markets, is sucking in high-priced Japanese imports. And Japan's trade surplus with Korea—\$4.7 billion through May—is widening.

Meanwhile, Japan is investing less in Korea and more in less developed nations. "The threat to Korea's exports," says Rodgers, "is that Japan's new foreign ventures may eventually churn out goods similar to those produced currently in Korea, but at much lower prices."

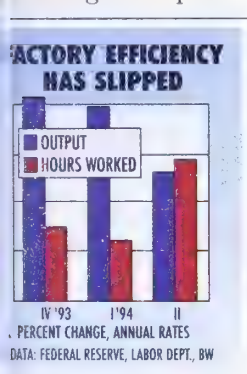
## WHY RETIREES ARE DREAMING OF HEALTH-CARE REFORM

More than half of Americans retire by the time they're 62, and Medicare doesn't kick in until 65. Yet a relatively small minority of retirees receive health coverage from their former employers. A recent nationwide survey by benefits consultants Foster Higgins indicates that only 8% of small employers (with fewer than 500 workers) and 46% of large employers provided health insurance to retirees last year.

The situation isn't getting any better. Many employers that offer benefits are cutting them back, and 7% (including some large companies) say they intend to terminate retiree medical plans.

## RELAX. THAT PRODUCTIVITY DIP WAS JUST A BLIP

**W**ith inflation-hunting season in full swing, vigilantes are scouring the economic underbrush for signs of the pesky varmint. Slow growth in labor costs and even slower growth in the economy offer rustling in the leaves. But evidence that productivity dipped in the second quarter certainly means the hunters won't be stowing their firearms any time soon. What's the danger? A drop in productivity means that the cost of producing each unit of output increased, perhaps sharply, in the past quarter. Moreover, in the long run, higher productivity is the only way in which businesses can raise the real wages of their workers without increasing their prices at the same pace.



What seems to have happened in the spring, however, is that businesses, chiefly services, overhired. Job growth hit its fastest pace in seven years. But because final demand was something of a disappointment last quarter, output per hour worked very likely fell—perhaps at a 2% annual rate or more. And that suggests that unit labor costs may have jumped by as much as 5%.

Bear in mind, though, that the second-quarter performance was a temporary slip rather than a new trend. The cyclical gains in efficiency are falling away—even as the long-term, technology-driven improvement in productivity remains in place. Indeed, even with a big decline last quarter, productivity would still be an impressive 2.2% higher than it was a year ago.

**INFLATION HAWKS ARE SURE TO SQUAWK** That may not placate the inflation hawks when the Labor Dept. issues its productivity report on Aug. 9. The stumble is apt to touch off a shotgun volley of calls for tighter monetary policy at a time when Fed Chairman Alan Greenspan himself seems itchy to pull the trigger (page 25).

The productivity drop was widespread. Factories, which have strung together 12 quarters of efficiency gains, struggled to stay in the plus column last quarter. Hours worked grew faster than manufacturing output, suggesting no gain in productivity (chart). But that still means a 3% advance from year-earlier readings. And the annual pace of factory unit labor costs would still be falling.

Services, however, probably lost much more ground. If

factories' productivity was stuck in neutral, services' output per hour worked dropped sharply. Not surprisingly then, the service companies are having a harder time lowering their unit labor costs, especially since the growth in overall compensation in services may have hit bottom (chart). As companies struggle to lower their labor bill, job growth in services may begin to taper off in the second half.

### BENEFIT COSTS HAVE SLOWED SHARPLY

But despite the cyclical slowing in productivity gains, the news for unit labor costs—and thus inflation—isn't all bad. That much is clear from the Labor Dept.'s employment cost index.

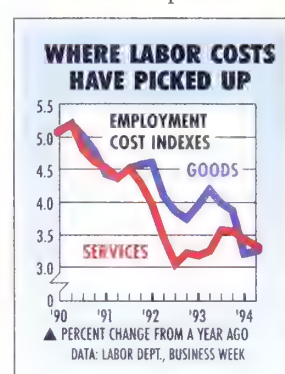
The ECI for all civilian workers in the second quarter rose 0.9% from the first quarter, and it was up only 3.2% from a year ago. That was the smallest annual increase since the government began keeping such records in 1981, and it's a sign that labor costs will not be pushing up inflation in the coming months.

Union pay growth is faring worse than nonunion gains. Wage increases in the major collective-bargaining agreements reached in the second quarter, which cover some 627,000 workers, averaged 2.4% annually. That's lower than the 3% gain in the contracts that were replaced.

Although wages and salaries together make up about three-fourths of total labor costs, it's the moderating trend in benefits that accounts for the continued slowing in employment costs. In the private sector, wages last quarter showed a 3.1% increase from a year ago, a slight pickup from 2.7% in the second quarter of 1993.

But over the same period, the annual growth of benefit costs dropped from 5.8% to 3.9%—and that's down from a 7% clip four years ago. Benefit costs are growing more slowly because of continuing moderation in the pace of employers' insurance costs for health coverage, workers' compensation, and state unemployment programs.

Comparing labor costs for goods producers with those for service companies, however, reveals another reason why services face tough going in trying to hold their unit costs in check: Although wages and benefits for goods producers continue to slow, compensation growth in



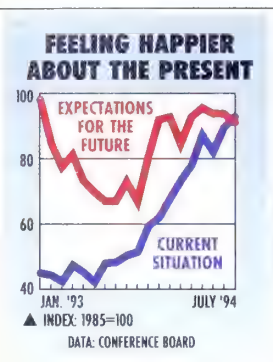


# Business Outlook

Services has stopped declining. Looking ahead, unit labor costs in services will start growing faster—if there are no productivity gains. And higher costs will put pressure on payrolls at any company that cannot raise prices.

## CONSUMERS STILL FRET OVER JOB PROSPECTS

The prospect of slower job growth is one reason consumers are a shade less euphoric about the economy these days. The Conference Board's index of consumer confidence slipped to 91.6 in July, down from 92.5 in June. Still, the index remains near its high for this expansion, suggesting consumers may rein in their spending increases, but they won't cave in.



Consumers' confidence about their present economic situation has been in a solid uptrend for a year now, hitting 92.6 last month (chart). And while their expectations about the future slipped to 90.9 in July, down from 94.6 in June, the index is still at a high level.

The Conference Board reported that jobs remained an important concern for many consumers

and that persons worried about employment prospects continued to outnumber those who considered jobs to be "plentiful." The Board also noted that the leveling off in the expectations component "suggests a continuation of steady, moderate economic growth in the second half of the year."

The temperate trend is echoed by some of the other latest data. Sales of existing homes fell for the second month, slipping 3.6% in June, to 3.96 million. And jobless claims remain unusually high, given the pickup in hiring. New claims rose to 392,000 in the week of July 16, after 363,000 were filed in the previous week—when state offices took a day off for the Fourth of July. Also, the

Johnson Redbook Report said that sales in the third week of July were down from June.

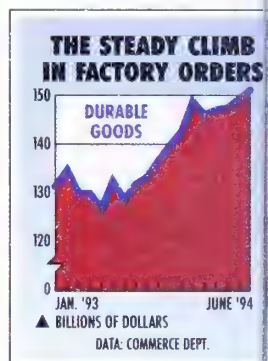
Even Washington will be a drag on the economy. With a \$15.2 billion surplus in June, the federal budget deficit so far this fiscal year is running 25% below its pace of last year. And since receipts are growing much faster than outlays, the red-ink total for fiscal 1994, which ends in September, could come in below \$200 billion—to as low as \$190 billion—for the first time since fiscal 1989.

One area still showing some pep is the durable-good sector of manufacturing. New orders there rose 1.3% in June, the fourth consecutive gain (chart). Demand for nondefense capital goods bounced back by a strong 6.2% after falling for four straight months.

The new demand coming online means that manufacturers are beginning to rebuild their backlog of unfilled orders—if only by tiny increments. Unfilled orders rose 0.2% in June, the third small increase in a row.

The backlog is down from last June, though, and inventories overall in the economy ended the second quarter at high levels. That means output growth will likely slow again this quarter—even as businesses continue the long process of installing high-tech equipment and rejiggering production practices that raises their productivity permanently.

Indeed, it is important to remember that productivity does not move in a straight line. Setbacks, as in the second quarter, will happen, but they don't derail the longer-term improvement in efficiency now taking hold. As companies take up the gauntlet of global competition, the smarter use of computers, management skills, and technology is creating a more productive—and less inflationary—economy.



## THE WEEK AHEAD

### PERSONAL INCOME

Monday, Aug. 1, 8:30 a.m.

Personal income grew 0.3% in June, half the gain in May, say forecasters surveyed by McGraw-Hill Inc.'s MMS International. Consumer spending advanced 0.5%, after rising 0.4% in May.

### CONSTRUCTION SPENDING

Monday, Aug. 1, 10 a.m.

Building outlays probably rose 0.5% in June, after a 0.9% decline in May.

### NAPM SURVEY

Monday, Aug. 1, 10 a.m.

The MMS median forecast expects that the National Association of Purchasing

Management's index fell to 57% in July. That's down from 57.5% in June, and from the second-quarter average of 57.6%, a further sign of slowing industrial activity.

### NEW SINGLE-FAMILY HOME SALES

Tuesday, Aug. 2, 10 a.m.

New houses likely sold at a 700,000 annual rate in June, down from their 738,000 pace in May.

### LEADING INDICATORS

Wednesday, Aug. 3, 10 a.m.

The government's composite index of 11 leading indicators was probably unchanged in June, says the MMS survey. It has not risen since March.

### FACTORY INVENTORIES

Wednesday, Aug. 3, 10 a.m.

Inventories likely increased by 0.2% in June, on top of a 0.5% jump in May.

### EMPLOYMENT

Friday, Aug. 5, 8:30 a.m.

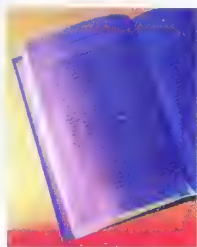
The MMS economists expect a 220,000 gain in nonfarm jobs in July. That's large, given the 379,000 surge in June. The jobless rate probably stayed at 6%, though—the same as in May and June.

### INSTALLMENT CREDIT

Friday, Aug. 5

Consumer debt likely rose \$7.5 billion in June, after \$10.4 billion added in May.

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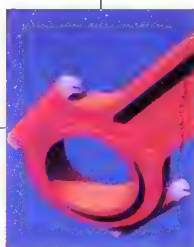
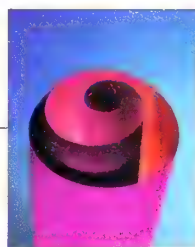
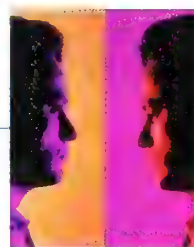


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# REMAKING BIG OIL

## THE DESPERATE RUSH TO SLASH COSTS

Employees of Amoco Corp. were still reeling from the wrenching 1992 shakeup that led to 8,500 job losses when word of another corporate restructuring began circulating in March. For months, tensions and anxiety grew as executives worked on the details. "There was self-doubt, paranoia—nobody got anything done," recalls one senior official.

Not surprisingly, it was a glum, stony-faced group of Amoco workers who assembled on July 21 to hear Chairman H. Laurance Fuller spell out the \$28 billion oil giant's latest overhaul. Working the crowd patiently and in shirtsleeves for 90 minutes, he explained that an additional 4,500 staff jobs will be cut by 1996, bringing total employment down by 25% since 1992. Further, the chairman told employees, the company's three operating units—oil and gas exploration and production, refining and marketing, and chemicals—will be split into 17 business groups that will be held highly accountable for performance. The goal: an annual cost savings of \$1.2 billion. One plaintive staffer asked when the chopping and changing would end. Fuller's response: "Probably never."

**CONTINUAL OVERHAUL.** It's a message resonating throughout Big Oil. Not since the throes of the merger-and-acquisition craze a decade ago has the oil industry been in such ferment. Constant restructurings—layoffs, asset sales and swaps, write-downs on oil and gas properties, outsourcing service functions—are fast becoming a regular occurrence.

On top of Amoco's \$256 million second-quarter hit to earnings, Mobil, Texaco, and ARCO wrote off a combined \$588 million from recent restructurings, contributing to a sharp fall across the industry in second-quarter profits. Return on equity for the Big Six U.S. companies—Exxon, Mobil, Texaco, Chevron, Amoco, and ARCO—has slipped from 14.8% in 1988 to 12.9% last year, figures Kidder, Peabody & Co. analyst Bernard J. Picchi. And in the past few months, the six have announced that they will lop off some 13,000 jobs. Moreover, says Texaco Inc. CEO Alfred C. DeCrane Jr., who just announced plans to cut 2,500 jobs, or 8% of the workforce over the next year, "the conditions in which we operate will remain tough."

For shareholders, the moves are good news. In fact, companies as diverse as British Petroleum PLC and Amoco itself have seen their share prices recently hit all-time highs. "The industry is getting itself in good competitive shape," argues Fuller. And nascent economic recoveries in Europe and Japan are likely to buck up demand, though analysts argue that overabundant supplies will prevent a major oil-price surge.

Simply put, Big Oil has finally discovered what dozens of other industries now accept as a fact of life: They can forget about returning to the bloated more-is-better management practices of the past. "As major corporations, we have to reinvent the way we do our work," says Shell Oil Co. President Philip J. Carroll. "We face a challenge that goes far beyond the current realities of the oil business."

## SCRAMBLE IN THE OIL PATCH

**AMOCO** On July 21 announced its second large shakeup in two years. On top of 8,500 workers cut off since 1992, 4,500 will go by 1996—an overall cut of 25%. The latest overhaul caused a \$256 million hit to second-quarter earnings. The expected payback: \$1.2 billion in annual savings.

**ARCO** Is now starting its third wave of layoffs. By 1995, 3,300 jobs, or 13% of the company's force, will be eliminated. The strategy: Massive cuts in the U.S. with increased spending overseas.

Unless Big Oil gets lean enough to profitably hunt for increasingly hard-to-find reservoirs and respond to massive price swings, earnings will seesaw wildly. It was just such a fall in oil and gas prices early in the second quarter of 1994 that helped pummel profits. The industry now is restructuring for an oil price of \$18 to \$20 per barrel—lower.

Nor is there a reprieve at the gaso-





ne pump. Worldwide demand over the next five years may grow at no more than 1.8% annually, or about the same as recent years, says analyst Picchi. Why? In part, it's due to growing use of more energy-efficient cars and other equipment.

What's more, tough competition will make it difficult to boost prices, while stiff environmental regulations will add urgency to future refinery outlays. The

There's been some payoff, too: The cost of replacing each barrel of oil reserves dropped to \$4.20 per barrel in the U.S. from \$4.93 in 1993, estimates Andersen Consulting's Victor A. Burk.

But it's clearly not enough. For much of the past decade, the industry has been exhausting its reserves of oil and gas far faster than it has been replacing them. By Burk's estimates, over the past five years in the U.S., Big Oil has found

less than two-thirds of the energy supplies it has been using up. The trick now is to husband the financial savings from cutbacks in the U.S. for a big exploration push abroad.

**MAD DASH.** As if in lockstep, Big Oil is raising cash to shift as much as two-thirds of exploration and production budgets overseas. After

selling its chemical unit for \$800 million in April, Texaco in early July announced plans to sell or swap half of its 600 underperforming U.S. oil fields. Texaco's new action: a big Russian oil field above the Arctic Circle and China's Tarim Basin.

ARCO has accelerated its pullback from its core Alaskan operation and cut its oil-exploration operations in the Lower 48. By 1996, ARCO hopes to be saving

\$400 million, while amassing a war chest to seek petroleum and gas in Asia and South America. Meanwhile, Unocal Corp. may sell its 69 oil and gas fields in California.

But can the mad dash overseas pick up the slack? True, there's huge potential: 20 billion barrels in China's Tarim Basin, 2 billion in Russia's Timan Pechora. But just as clearly, there are big risks. Witness Chevron's fitful progress in the Tengiz Field in Kazakhstan, or Amoco and BP's torturous negotiations in Azerbaijan. Oil near the Arctic Circle in Russia also poses huge drilling and transporting—to say nothing of political—challenges. Amoco's Fuller warns not to expect bottom-line contributions from new fields before the turn of the century.

But such doubts aren't daunting most of the industry's executives. Texaco's DeCrane insists the international push is vital: "We get paid to take risks. This is necessary to keep filling our inventory, but you don't want to be helter-skelter around the world."

Given the rundown of assets in the U.S., the huge overseas bets had better pay off. Otherwise, Big Oil will be locked in an ugly vicious cycle, where cost-cutting never overtakes the downturn in revenue growth. For anxious oil workers, the uncertainty is likely to linger for years.

*By Richard A. Melcher in Chicago and Peter Burrows in Dallas, with Tim Smart in Stamford, Conn.*

**EXXON** On June 28 announced a consolidation of its U.S. production unit. Exxon has cut operating by \$1.6 billion since fiscal 1992 and sold \$1 billion in refinery fields and other assets in each of the past three years.

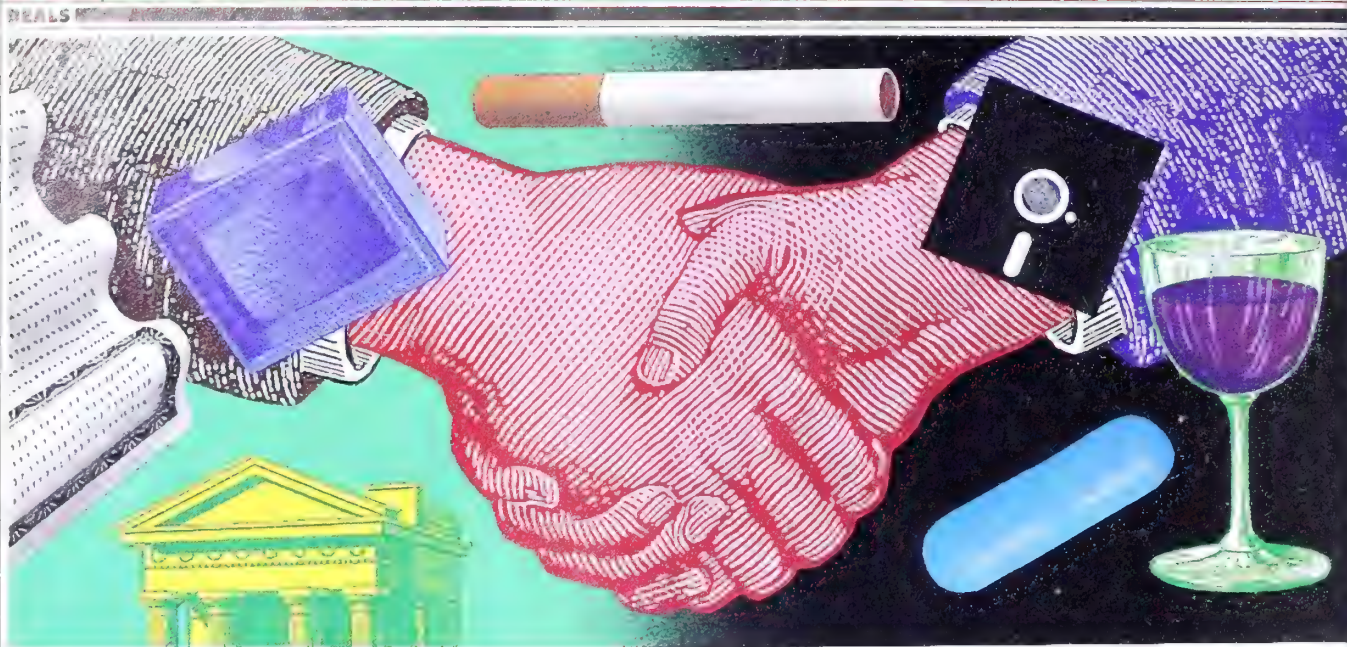
**MOBIL** Restructuring continued in late June with a \$315 million write-off of domestic gas fields after cutbacks. The goal: to add \$1 billion to profits.

**TEXACO** In early July announced a \$300 million plan to sell or swap half of its 600 domestic oil and reduce employment by 2,500. It is refocusing on over-exploration.

National Petroleum Council reckons that in the U.S. alone, the industry will need to spend \$151 billion by 2010 to upgrade refineries.

For most of Big Oil, the slashing of 1994 is at least the second big overhaul of the young decade. Chevron Corp. has taken \$1.2 billion in annual costs out of its system, while BP expects to add \$1 billion in asset sales this year to the \$2.5 billion already dumped since 1992.





## SAME OLD FEEDING FRENZY, DIFFERENT BAIT

In the new round, mergers are more strategic—and cost more, too

**D**ealmania is back. At least that's the buzz on Wall Street, where mergers-and-acquisitions wizards are honing their "highly confident" letters and getting reacquainted with their late-night pizza-delivery services. Deals announced in the past few weeks alone have included two of the largest-ever cable-TV buys, a railroad gigamerger, and a \$13 billion hookup in the cellular industry. Overall, M&A activity in the U.S. is up a sizzling 46% over last year, on track to post the third-biggest total in history. "We're at the start of the next great merger wave," says Joseph H. Flom, the guru of Wall Street takeover lawyers.

But unlike past cycles, which started off with reasonable prices and later escalated into insanity, the latest frenzy has already pushed acquisition prices into the stratosphere. The extreme example is Eli Lilly & Co.'s \$4 billion deal on July 11 to purchase PCS Health Systems, which at 130 times earnings was so pricey that even Wall Street veterans were left with mouths agape.

But even outside the superhot media, telecom, and health-care sectors, deal prices are near all-time highs. Statistics compiled by Securities Data Co. show that buyers on average are paying higher multiples of cash flow for midsize-to-large acquisitions this year than any time since 1986 (chart).

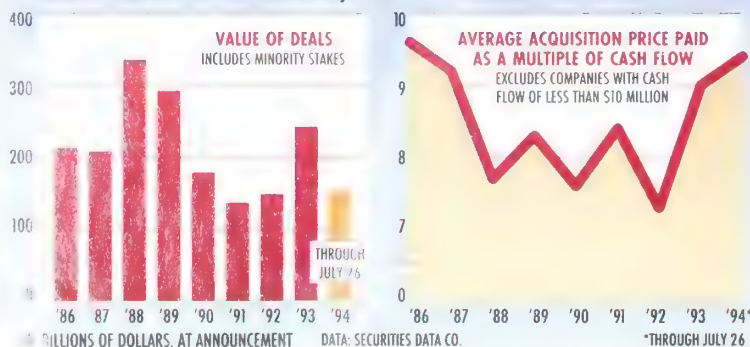
Are things again getting out of hand? Not necessarily, say many investment bankers. First, the high prices are partly a reflection of higher stock market values. And low interest rates have made companies more affordable. Bankers also argue that the latest round of takeovers is very different from the stereotypical late-1980s transaction, undertaken by a financial buyer who

was looking to cut costs and turn a quick buck. "The deal business has changed," contends Mike Overlock, head of M&A at Goldman, Sachs & Co. "It's a strategic business: Companies are buying other companies because it makes sense in the competitive marketplace."

Companies acquiring in their own industry, this argument goes, can extract more value from their target and thus can pay more. What's more, many of the most expensive recent mergers are in industries being rocked by shifts in technology or structure. For instance, media companies dazzled by visions of a multimedia future are scrambling to position themselves. Anybody who doesn't get in on the dealmaking now, goes this theory, is destined to be roadkill on the Information Highway.

**MANAGERIAL EMPIRES.** Still, many outsiders aren't convinced by such arguments. Their view: Plenty of today's deals could prove both misguided and overpriced. In industries such as telecommunications and health care, companies are betting that the future will be very different—and that their crystal balls are accurate. "Talking about the Information Highway or some such intangible idea makes a deal defensible, but it doesn't bring in the cash," says Roy C. Smith, professor of finance at New York University and a former Goldman Sachs partner. "I haven't seen a lot of cases where the early movers were the

### DEALMAKING IS BACK, AND PRICES ARE SKY-HIGH





## FUNDS ARE LIKE WINE. THEY NEED TO AGE A LITTLE

**I**nvestors have notoriously short memories—and in those who invest in mutual funds, it's an understandable flaw. In the past four years alone, millions of people flocked to funds, and the billions of dollars they invested fueled torrid stock and bond market rallies. For them, there are no long-term memories of well-meaning investment strategies gone awry. Until this year, most raked in money.

But investors should now be heeding a lesson from the old days—which, in the world of mutual funds, is 1990 or earlier: Don't invest in a mutual fund until it has racked up a five-year track record.

Paying heed to this simple dictum would have kept investors out of the PaineWebber Short-Term U.S. Government Income Fund, launched in 1993. The fund, promoted as a higher-yielding alternative to money-market funds, in fact was loaded with volatile mortgage-backed securities. They plunged in price this year, dragging the 1994 total return (change in net asset value plus reinvestment of dividends) to -7.7%. Contrast that to the Vanguard Fixed-Income Short-Term Federal Bond Portfolio, with a similar investment goal. It is down just 0.9%.

**SURER PROTECTION.** For now, PaineWebber Group Inc., the fund's parent, is practicing damage control. On July 22, the brokerage firm said it would spend \$180 million to buy the fund's unsalable securities. That's on top of \$88 million spent in June to buy other illiquid assets and, if a court approves, restore 6¢ to each fund share's net asset value. PaineWebber's efforts may stem further losses, but they're not going to make fund investors whole. Funds aren't obligated to make good when they lose money, and investors can't count on any bailouts.

The five-year rule is surer protection. That's about the length of time it takes a fund to experience bad as well as good times in the market. Many pros who use mutual funds to

manage their clients' money won't touch a fund until it has racked up five years. And BUSINESS WEEK won't rate a fund in its annual Mutual Fund Scoreboard if it has less.

If investors actually practiced the five-year rule, it would crimp an industry that is creating funds willy-nilly. Since 1990, the number of funds soared 55%, to 4,828 (chart). But hey, it's the investor's money that counts—not the manager's Mercedes. And, of course, there are exceptions. If a fund manager with a proven track record is going to launch a new fund using the same investment approach, there's no need to wait. And it's important to remember

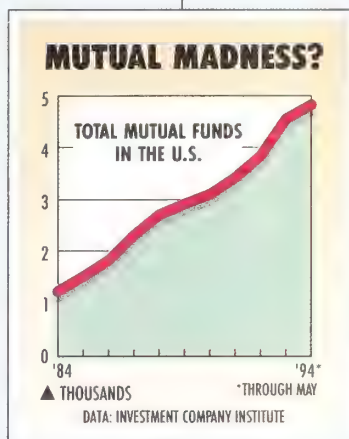
that even the best fund managers sometimes hit a slump.

The five-year rule is especially helpful when it comes to testing the durability of new investment concepts. Investors who took a wait-and-see attitude would have missed the debacle in the government bond-option funds that soared in 1985 and 1986 but crashed in 1987. Those following the five-year rule also

would have avoided short-term world income funds, introduced in 1989 to capture the higher interest rates of non-U.S. markets while eliminating currency risk through sophisticated hedging strategies. Those funds worked fine for three years. Then a financial hurricane blew through Europe's currency markets in 1992 and made the hedges worthless.

For sure, fund buyers who wait five years may miss some winners. The Oakmark Fund, which celebrates its third anniversary on Aug. 5, has racked up a juicy 150% return. Investors willing to do the homework may be able to spot such gems among the new funds. But for most, sticking with a more seasoned vehicle is safer. Investors who do so may miss some big runups, but they have a better chance of avoiding the worst of what the fund industry has to offer.

*Laderman is the author of BUSINESS WEEK's Guide to Mutual Funds.*



gest winners. It's awfully hard to understand the valuations they're putting on some of these deals."

The recent tendency for many companies to pay for acquisitions with stock is a sign that many deals won't pay. "I say some academics who cite similarities to the 1960s merger wave. 'It all is managerial empire-building to run ok, because managers don't see any risk of making mistakes,'" says Michael Jensen, professor at Harvard business school. If a company takes on debt to make an acquisition and the deal turns sour, Jensen argues, it runs into financial trouble, and top executives get ousted. But if an equity deal sours, the stock price simply underperforms, and nobody can be sure why. "You're much more likely to find unwise acquisitions in the stock market," says Jensen.

**COMBINED DROP.** In studying past mergers, academics also have found that the initial stock market reaction to a deal often gives a crude indication of ultimate success. If an acquiring company's stock tanks after the announcement, that could mean the deal was overpriced or strategically off base. Although this indicator has frequently been wrong, it signals that companies such as Merck, Viacom, and Lilly may have just bought expensive mistakes. Indeed, the market's reaction to Lilly's \$1.5 billion deal was so negative that it has knocked \$2.7 billion from Lilly's market value, while adding only \$1.1 billion to the value of McKesson Corp., PCS's partner. It's rare for the combined values of both companies in a merger to drop, says Steven N. Kaplan, a professor at the University of Chicago business school. "And a drop of this magnitude is very, very unusual," he notes. His conclusion: "It ain't a good deal."

High prices are altering the dealmaking landscape in another way: Most of the leveraged-buyout firms that dominated the late-1980s acquisitions scene are being priced out of today's deals. "In auction situations, we're being outbid by strategic buyers who are willing to accept lower rates of return," says J. Wilkinson Hill, a general partner at Ackstone Group, a Wall Street investment bank with a \$1.3 billion dealmaking fund.

That's just one sign that the latest dealmaking mania is different from that of the 1980s. Some companies seem to have learned a lesson from the '80s bidding wars and are dropping their takeover bids when a higher offer emerges. And at least equity-led deals won't result in as many painful financial restructurings, which, after that orgy of debt-laden excess, cost so many their jobs. But the gains—forget about 'em.

*By Mark Maremont in Boston*





CLINTONITES MAY FORGIVE BENTSEN BUT NOT ALTMAN

## AS THE TREASURY TURNS

**LLOYD BENTSEN** His conservative views have clashed with those of White House liberals. Now, Bentsen's claim that he was out of the loop on Whitewater has been challenged.

**ROGER ALTMAN** The Republicans' chief target in the Whitewater hearings. As acting head of the Resolution Trust Corp., Altman aided White House attempts to limit political fallout from the scandal.

**JEAN HANSON** A political neophyte, Treasury's general counsel threatens to drag Altman and Bentsen deeper into Whitewater. She has produced documents suggesting that both lied about their involvement.

**JOSH STEINER** Bentsen's chief of staff dismayed Altman and White House aides by giving congressional investigators his diary detailing their struggle to keep a lid on Whitewater political damage.

## TREASURY'S WHITEWATER WHIRLPOOL

Bentsen may stay afloat, but the affair is imperiling key staffers—and goals

It began as a Republican assault on the Oval Office. But increasingly, it appears that the main casualties of GOP-inspired congressional hearings into the Whitewater affair will be the occupants of 1500 Pennsylvania Avenue, stately home of the U.S. Treasury Dept.

Inquiries by the House and Senate Banking Committees won't turn to Treasury aides' roles in Whitewater until early August. But already, it's clear the department has been rocked by the scandal. No matter what happens on Capitol Hill, insiders expect big personnel shifts at Treasury this fall.

**BUSY AGENDA.** To understand why, consider the intrigue swirling around the department. Secretary Lloyd M. Bentsen contends he was unaware of subordinates' questionable activities—a claim one aide disputes. Deputy Secretary Roger C. Altman, who kept the White House abreast of Whitewater developments when he served as acting head of the Resolution Trust Corp., has seen his version of events contradicted by co-workers. General Counsel Jean Hanson and Bentsen Chief of Staff Joshua L. Steiner have produced documents suggesting that Altman was an early and active participant in White House damage control.

Although Special Counsel Robert B. Fiske Jr. feels that the scurrings of Treasury aides do not warrant criminal prosecution, White House Chief Coun-

sel Lloyd N. Cutler told the House Banking Committee on July 26 that some of those contacts—notably Altman's discussion with White House aides of his recusal from the case—showed poor judgment.

And judgment is highly prized at Treasury, which cherishes its reputation as a buttoned-down bastion of prudence. With its high command mired in Whitewater claims and counterclaims, the department seems adrift—even as lobbying for a new General Agreement on Tariffs & Trade intensifies, the dollar remains shaky, and legislation easing barriers to interstate banking nears passage. Treasury is “an agency that's paralyzed,” says an Administration economist. “Nothing is getting done.”

Although Treasury no longer wields the clout it enjoyed under Republicans—due in part to President Clinton's creation of a National Economic Council (NEC) in the White House—it remains central to efforts to boost U.S. competitiveness. Observers doubt it can be ef-

All the talk of lousy judgment  
is rattling Treasury,  
which sees itself as nothing  
if not prudent

fective while it's under a Whitewater cloud. “Treasury has been severely damaged,” laments a former high-ranking department official. “The place is going to have to be rebuilt.”

Few congressional sources believe that Bentsen's standing has suffered. “They still love Lloyd on the Hill,” says a Clinton economic aide. The same cannot be said of Altman, whose ability to hang on to his job looks increasingly in doubt. Although he elicited a terse expression of Presidential support on July 25, many Clintonites believe his effectiveness is beyond repair. “Altman is trying to save his hide even as the White House distances itself from him,” says a Presidential adviser. “The Clintons won't forgive him for leaking stuff that fingered [White House aides] George [R. Stephanopoulos] and Harold [C. Ickes]. He must go and he will go.” Altman's response: “As far as taking a fall is concerned... I don't expect to resign.”

**DEAR DIARY.** Another likely casualty is Steiner, whose diary notations threaten to cut the bottom out of Altman's defense. The betting is that the 28-year-old aide departs Treasury for a less visible job. As for Hanson, few Clinton aides think she can patch up matters with Bentsen. One bone of contention: a Hanson memo that tried to get the Treasury chief to admit he understated his knowledge of Whitewater. “Jean would have to resign on her own,” reckon a top Clintonite. “Any move to remove her would look like retribution.”

Should Treasury aides begin an exodus, who would fill their wingtips? Typically, the speculation has begun even before the bodies have departed—or delivered their congressional testimony. In-house favorites for Altman's job include W. Bowman Cutter, deputy to NEC



ncho Robert E. Rubin, and Erskine Bowles, head of the Small Business Administration. Other insiders: Joan E. Perso, Under Secretary for Economic Affairs at the State Dept., and top Commerce official Jeffrey E. Garten, an ex-league of Altman at Blackstone Group. Outsiders include C. Fred Bergsten, director of the Institute for International Economics and a Treasury official in the Carter Administration. Long-term, some Democratic strat-

egists expect that the Treasury turmoil might even strengthen Bentsen's role within the Administration. Noting that most of his top deputies, from Altman and Hanson to Under Secretary for International Affairs Lawrence H. Summers, were White House suggestions, one Clinton adviser says that a restructuring might be just the ticket. "The plan was always for Bentsen to depart at some point and for Rubin to step in. Now, Lloyd might just dig in and try to

rebuild Treasury with his own people."

Could such a sunny outcome evolve from the dank mess? Stranger things have happened in Washington. Meanwhile, it looks as if Bentsen had better be prepared to exchange his pinstripes for overalls. It's time for a reconstruction at a proud institution weakened by political meddling and palace intrigue.

*By Lee Walczak, Paul Magnusson, and Douglas Harbrecht, with Amy Barrett, in Washington*

Commentary/by James C. Cooper

## LOOKING FOR AN EXCUSE, GREENSPAN FINDS THE GREENBACK

**S**uddenly, Alan Greenspan sounds a lot like Wayne Angell, the Federal Reserve Board's former superhawk.

On July 15, the Fed chief extolled the economy's "ideal combination of rising activity, falling unemployment, and falling inflation." But only five days later, when he squared off with the Senate Banking Committee at his twice-yearly report on monetary policy, he not only intensified his anti-inflation rhetoric but elevated the policy role of the dollar. Even Angell, now resident Fed critic for Bear, Stearns & Co., lauded Greenspan's remarks.

The Fed chairman sounded as if the weaker dollar might provide one more excuse to make another preemptive strike against inflation, despite accumulating signs that the economy is already slowing. Fed watchers now expect another hike in interest rates at the next policy meeting on Aug. 16. And the move could be a big one—a 50 basis-point increase in both the federal funds rate and the discount rate, now at 4% and 3½%, respectively.

**PLAIN SPEAKING.** But why tighten at all? The Fed's own forecast for 1994 implies that second-half growth will slow to between 2.5% and 3%, from 3.5% to 4% in the first half. Private economists are starting to worry the Fed will overtighten and end up slowing the economy more than necessary to hold inflation in check," says Bruce Steinberg at Merrill Lynch & Co.

Greenspan seems ready to take that risk. He pointed to shortages of construction workers and truck drivers, slower delivery times, and rising prices

of raw materials as signs that the economy is approaching full capacity. He also threw in the Angellian concern over higher gold prices. Not particularly compelling stuff.

But what might give Greenspan a more persuasive cover for another rate hike is the weaker dollar. Traditionally, the greenback's role in interest-rate policy has been about nil. That's why his statement that in recent weeks what "has worried me most, clearly,

national currency markets. "There's no question that the increased integration of global markets is having an impact," says Charles Lieberman at Chemical Bank. Not only is a sagging dollar inflationary, it's a sign that Japanese and German investors are eschewing U.S. assets, especially bonds, which also hurts the U.S. economy.

That's why Greenspan may favor a big rate hike. In his testimony, he said the Fed began tightening on Feb. 4 with quarter-point moves to ease the shock to the financial markets, but by May 17, the markets were ready for a half-point hike. Besides, the markets almost universally pooch-pooched those quarter-point increases as inadequate. And if the Fed does have a tacit agenda to reverse the dollar's decline, one more baby step won't do it. Indeed, a discount-rate boost, while not important in the U.S., makes a loud noise around the world.

Despite the dollar, Greenspan may simply believe that another big hike is necessary to ensure that inflation is preempted. Toward the end of his 3½ hour testimony, after all committee members except Chairman Donald W. Riegle Jr. (D-Mich.) had left, Greenspan mused frankly: "What if we are wrong?" He then made it clear that at this point, when price pressures start to emerge, he would prefer to make a policy error on the side of restraint. To be sure, the Fed must be vigilant against inflation, but while Greenspan's new hawkishness may help the dollar, it places the expansion at risk.

*Cooper is BUSINESS WEEK's senior economist.*



**The chairman seems willing to run the risk of tightening too much and slowing the economy**

is the weakness in the dollar" is an unusually blunt comment from a Fed chairman.

It's not as if the Fed is about to rush to the aid of the downtrodden dollar. Rather, Greenspan's quote was in the context of U.S. inflation—that the weaker dollar was a sign "that inflationary pressures as viewed out in the world are clearly not coming down." Put that way, the Fed chief has a more orthodox excuse for another hike.

However, it may well be true that U.S. monetary policy can no longer ignore the powerful influence of inter-



## HARDBALL IS STILL GM'S GAME

Tough tactics anger suppliers but cut costs and boost profits

It's axiomatic in the auto industry that carmakers can't do well these days without wholehearted support from their suppliers. With sales robust, new models coming out, and factories running on overtime, suppliers are strapped to keep up. So how do parts makers feel about working with General Motors Corp.? Here's how one sums it up: "We're not gonna bust our fanny for [GM] anymore."

Call it the lingering legacy of López. A year and a half after controversial purchasing czar José Ignacio López de Arriortúa defected from GM to rival Volkswagen, suppliers are still simmering. GM, which has attacked López in a dispute over trade secrets, still largely embraces his bare-knuckle purchasing practices. As a result, GM's relations with its suppliers remain the worst in Detroit. "There is an anger out there that's palpable," says a consultant.

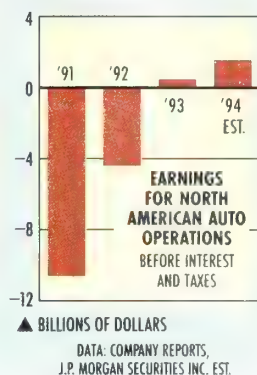
**HUGE SAVINGS.** When López first came to Detroit from General Motors of Europe Ltd., he reopened scores of contracts, demanding and getting price cuts of up to 20%. His actions were drastic, but they got results: GM says that by the end of 1993, it had saved a staggering \$4 billion in cumulative purchasing costs. Those savings were key in returning GM's North American operations to a breakeven level last year after a loss of \$4.5 billion in 1992 (chart). In 1994, the strategy will help the unit post a profit of \$1.5 billion.

Car buyers aren't complaining, GM points out. "When you buy a suit, you don't ask who supplied the buttons, you ask is this the right product at the right price?" says Harold Kutner, GM's vice-president for worldwide purchasing.

But suppliers say GM continues to press too hard. An electronics supplier tells of a \$30 part he developed jointly

### DID LOPEZ HELP OR HURT GM?

Tough purchasing policies have rankled suppliers. But GM claims the approach has saved it \$4 billion from 1991 to 1993, helping to stanch losses.



with GM. He says that after he slashed the price to \$15, the GM purchasing agent demanded more cuts, citing a \$9 bid from a Chinese company that had never made the part in question. While he hasn't lost business, Dale Meyering, sales manager at Michigan Rubber Products Inc. in Cadillac, Mich., says GM's frequent quoting and re-quoting on contracts "makes it difficult for us to plan people, capacity, and equipment more than a year ahead."

Suppliers agree, however, that GM's purchasing staff is no longer as abrasive as during López' tenure. Says James S. Reid, chairman and CEO of Standard Products Co.: "There has been improvement, and GM is making an effort as best they can to rebuild the relationships obviously hurt by López." GM's Kutner confirms that his company has tried to mend hard feelings but adds: "We're not going to violate our process. We're going to be tough and be fair."

Many suppliers still think GM's approach is a mistake. For instance, its multiyear contracts mandate a 5% price cut in the second year but don't include incentives for further cuts. Chrysler Corp. rewards suppliers for cost-cutting through the life of its contracts—and sometimes gets savings of 6% or more. Moreover, with GM's policies, "you don't get any points for responsiveness or quality" above expectations, says Susan

GM CLINGS TO PENNY-PINCHING BUYING METHODS INTRODUCED BY LOPEZ



Helper, a professor at Case Western Reserve University.

Intellectual-property issues, perhaps more than any others, still upset suppliers. GM says it needs to "benchmark" parts prices to make sure that it is getting the best value for the sake of its customers. So it shows a vendor's engineering drawings to competitors, to see if they can make the part for less. GM says it will not show the drawings to other suppliers if the part is patented, if the original supplier can prove that the drawings are proprietary. But even GM's own Saginaw Div., which makes power steering systems, admits to "cleansing" its drawings of proprietary information before showing them to GM's purchasing arm.

**MOSTLY TALK?** GM eventually will be hurt by its practices, suppliers say. One part maker that does approximately \$600 million in business with carmakers says it is focusing its efforts on selling to GM's rivals. Other suppliers tell horror stories about how GM's low-bid supplier of an ashtray couldn't deliver acceptable quality last year, delaying the launch of the 1995 Chevrolet Caprice.

To be sure, the suppliers have voiced similar anger before, and some of the most dire predictions haven't come to pass. Still, they note that the auto industry's long lead times mean the full effects of López' policies may not be seen until next year and later—when cars developed using parts sourced entirely under López' watch roll out. López may be gone, they say, but his ghost will haunt GM for years to come.

By James B. Treece in Detroit, with Zachary Schiller in Cleveland and Kevin Kelly in Chicago



## DEC'S BOARD HAS WOKEN UP. NOW COMES THE HARD PART

Just over two years ago, directors of Digital Equipment Corp. did what many thought they never would do: fire their friend, the floundering company's founder and chief executive, Kenneth H. Olsen. But even under new management—and despite cost cuts, strategic shifts, and management changes—DEC is still mired in muck.

On July 26, the computer maker reported flat revenues of \$3.9 billion for the quarter ended July 2 and an operating loss of \$160.4 million—higher than expected. DEC's stock ended the day at 19%—up 1, thanks to the stabilized sales—but still near its 52-week low, showing the market's skepticism about the restructuring plan CEO Robert B. Palmer announced in mid-July. DEC watchers, increasingly, are asking questions: Why are there no signs of progress? Is DEC's plan to return to profitability by yearend workable? How long will Palmer last?

Here's another question that needs asking: What is DEC's board doing now?

**IRON FIST.** By its account, a lot. Directors realize that their job didn't end when they chose Palmer, and they have begun delving deeper into DEC's business. But they have not mustered the gumption of activist boards at General Motors Corp., Zenith Electronics Corp., and other struggling companies, which put new CEOs on strict regimes. The problem stems from the Olsen era: DEC's board wasn't doing its job when the company was doing well and now, hidebound by convention and crippled by a lack of knowledge, it is struggling to catch up. As Palmer puts it: "Had the board been educated on the industry and on what our competitors were doing, we would have moved sooner. Directors didn't have the information."

Until his ouster, Olsen ran the board with an iron fist. "Ken felt it was his company even when 95% of the stock was owned by the public," says Director Thomas L. Phillips, former CEO of Raytheon Co. Adds Director Robert R. Everett, former CEO of MITRE Corp.:

"When things were going well, we just listened."

Times have changed, directors say. They're getting more data, probing DEC's strategic plan, and working closely with Palmer. Talk flows freely at meetings. Dinner meetings are no longer mere social occasions. Some directors are seeking out top managers for talks and are visiting plants. Starting in August, directors will review results with managers of newly created divisions, not just with Palmer and



the chief financial officer. And DEC's 10-member board got new blood—former Nynex Corp. Chairman Delbert C. Staley and Economics Studies Inc. President Kathleen F. Feldstein.

Still, DEC's board hasn't gone far enough. Take the new directors. Phillips says he proposed Feldstein and Staley, then "Bob Palmer interviewed them, and he made the decision to invite them." That's hardly a way to establish a new director's independence—part of the problem under Olsen.

**The board wasn't doing its job when the company was doing well, and now it's struggling to catch up**

DEC's directors are bucking current wisdom on another boardroom issue: They haven't met without Palmer. "We haven't felt it necessary, and I think such a meeting would undermine him," Phillips says. But notes John A. Pound, a governance expert at Harvard: "It's becoming established practice for directors to meet privately at least once a year to evaluate senior management." Pound adds that they should also meet with large shareholders.

**SOFT TARGETS.** Most important, directors are still following when they should be leading. After working with Palmer on a strategic plan and goals, they should set reasonable timetables for their execution. At DEC, the process was reversed. Palmer laid out his own aims for a return to profitability, rationalizing the business, and downsizing, then presented them to the board. Says Phillips: "He picked the fourth quarter as a goal. His job is not in the balance if he does not make it, but the goal is that quarter or the one immediately thereafter." Business conditions can always interrupt timetables, but why start out with a mushy goal? On July 27, Palmer already started hedging on the timetable.

Arguably, directors could be working so closely with Palmer that the origin of a goal doesn't matter. But Phillips says directors were "shocked" when DEC reported a \$183 million loss in the quarter ended Apr. 2. "It was a disaster, and we said, 'Bob, the situation is urgent, and we must deal with it.'" Why weren't they prepared for the number? Either directors aren't working as intimately with Palmer as they think or Palmer himself doesn't have a good handle on the company's business.

Good boardroom practices don't necessarily mean good results. And DEC's board seems to be trying to do the right thing—especially lately. But DEC might have a far better chance of surviving in the fastest-paced business around if its directors took more steps to get themselves up to speed.

*Dobrzynski often writes about boards.*



## SOFTWARE

### TACKLING THE BLOAT AT NOVELL

CEO Frankenberg is shedding staff as the Microsoft battle heats up

In his final years before retiring as CEO in March, Raymond J. Noorda spent millions on acquisitions to erect a software empire at Novell Inc. Now, just four months into the job, CEO Robert Frankenberg is about to chop the company back down to size.

Frankenberg, a former Hewlett-Packard Co. vice-president, is knee-deep in a game plan to reorganize and streamline Novell. His first step: layoffs. Frankenberg isn't talking, but insiders say 1,000 to 1,500 jobs, as much as 15% of Novell's workforce, could be cut during the next few weeks. Frankenberg also may shed marginal products—even entire divisions.

Analysts expect WordPerfect Corp., the Orem (Utah) word-processing company that Novell acquired in June, to

bear the brunt of the layoffs. WordPerfect is notoriously bloated, with productivity that's only half that of Novell's (chart). "We're looking for efficiencies in the organization," confirms WordPerfect President Adrian Reitveld.

Novell, the king of networking software, could use a good trimming. The latest version of its NetWare software has not been a barn burner. Acquisitions helped boost revenues 45%, to \$407 million, in the second quarter, ended Apr. 30. But excluding a one-time gain from a software-license sale, profits dropped 7%, to \$75 million.

**FIGHTING FOR TURF.** What's more, Novell has more to fear than ever from its old nemesis—Microsoft Corp. Microsoft's recent settlement with the Justice Dept. will do little to change its aggressive

### NOT SO PERFECT

1993 SALES PER EMPLOYEE

|             |       |
|-------------|-------|
| ADOBE       | \$313 |
| MICROSOFT   | \$279 |
| NOVELL      | \$269 |
| BORLAND     | \$226 |
| AUTODESK    | \$226 |
| LOTUS       | \$221 |
| SYMANTEC    | \$219 |
| INTUIT      | \$204 |
| ALDUS       | \$189 |
| WORDPERFECT | \$128 |

0 100 200 300  
THOUSANDS OF DOLLARS

DATA: SOFTLETTER

tactics. And the software powerhouses expected to build networking software into future products, making a separate network operating system, such as NetWare, more. Noorda tried to maintain Microsoft's clout with acquisitions.

By contrast, Frankenberg wants to shed off software that doesn't help Novell defend its networking turf. The first thing to go could be Novell DOS, a personal-computer operating system that has only a minuscule share of the market. He may also end WordPerfect's

famed free customer service.

Can Frankenberg simultaneously cut Novell's costs, bulk up for its fight with Microsoft, and keep customers happy? Novell had better hope its new CEO is as much magician as manager.

By Richard Brandt in San Francisco

## COMPUTERS

### MASSIVELY MESSY

Thinking Machines must quickly find a corporate investor

It's crunch time at Thinking Machines Corp. The pioneering computer maker that brought "massively parallel" designs into the mainstream is engaged in a frantic race for survival. Now, with the possibility of a public offering squashed by continuing losses, the privately held company has put itself on the block.

Chief Executive Richard P. Fishman, a Washington lawyer recruited just 11 months ago to lead the Cambridge (Mass.) outfit, confirms that finding a partner "has a bearing on the survivability and viability of the company." The problem, according to Fishman: "We've had great difficulty making sales because people are concerned whether we'll be around." This year, revenues are expected to drop by 22%, to \$70 million. Losses could hit \$25 million.

The company's 450 employees are worried, too. In recent weeks, top software designers and salespeople have resigned. In mid-July, employees were un-



THE COLD WAR'S END WHACKED SUPERCOMPUTER SALES

expectedly paid for accrued vacation time and sales commissions—which some saw as evidence that the company is cleaning up its books for a sale.

**WRONG TURNS.** Why the crunch? The wealthy investors who have poured some \$130 million into Thinking Machines since 1983 have balked at providing new money without a corporate partner. To avoid collapse, former executives and others say Thinking Machines has discussed an alliance—or an outright sale—with several companies, including IBM, Sun Microsystems, and AT&T. None of the companies would comment. Fishman, who replaced co-founder Sheryl Handler as CEO, confirms that

he is "involved in negotiations with several parties right now" to bring in new money.

Thinking Machine's problems began in earnest three years ago. Even as it was selling equipment to a few big-name customers, including American Express Co. and Schlumberger Ltd., the computer maker missed a turn—heading for increased scientific sales rather than focusing on commercial applications. The company got whacked when the co-

war's end slowed sales of supercomputers and other gear. In 1991, Thinking Machines also missed its best chance to raise big money when Handler rejected the idea of doing a public offering. She figured the company could get a better deal if it waited.

Wall Street today views a public offering as anathema in the wake of market dives at such supercomputer makers as Convex Computer Corp. and Kendall Square Research Corp. Fishman's challenge now: to ensure that the pioneering company doesn't end up as simply another footnote in the history of the computer industry.

By Gary McWilliams in Boston





UNCHANTED FORREST: GUMP WAS NO EASY SELL, BUT PARAMOUNT'S PUBLICITY TEAM HUSTLED

## GUMP HAPPENS—AND VIACOM IS THANKING ITS LUCKY STARS

The surprise hit is earning gobs of cash for the victor in the Paramount battle

*Life is like a box of chocolates: You never know what you're gonna get.*

—Forrest Gump

Not even the most avid Gump follower would have predicted a month ago that *Forrest Gump* would become one of the biggest blockbusters of any movie season. Certainly not the nation's candymakers, none of which signed up for a product tie-in. Probably not even Sumner M. Redstone, the 71-year-old Viacom Inc. chairman who admits he privately thought the film's innocuous title would make it a tough sell to America's moviegoers.

Now, like Tom Hanks's Gump, the 75-year-old simpleton who succeeds with an unanny ability to be in the right place at the right time, Redstone can only thank the gods of fate. Just months after closing a hard-fought \$10 billion battle for Paramount Communications Inc.—and saddling his company with nearly \$9 billion in debt—*Gump* could generate cash flow of at least \$100 million annually this year and next (table).

Indeed, Gump's runaway success may validate, for now, Redstone's expensive decision to buy Paramount, which lost \$35 million in the first quarter on such big-budget flops as *Blue Chips*. UBS Securi-

ties Inc. analyst Edward Hatch estimates that *Gump* could add a full 10% to the estimated \$1.2 billion in cash flow the combined companies will generate this year.

*Gump* wasn't a hit waiting to happen. The film had Oscar-winner Hanks in the lead role, but it had none of the staples of a summer blockbuster: high-octane chase scenes or steamy groping. Moreover, the story line of a simpleton didn't lend itself to product tie-ins or joint marketing with cereal companies. "No Happy Meals were being sold for this one," says producer Wendy Finerman, who nurtured the film through its nine-year Hollywood odyssey. "We knew it was a great film, but the question was how to get anyone in to see it."

### THE GUMP GOLD MINE

|                                                         |      |                      |          |
|---------------------------------------------------------|------|----------------------|----------|
| Viacom should reap a windfall from its movie in 1994-95 |      |                      |          |
| VIACOM'S COSTS                                          |      | VIACOM'S REVENUES    | MILLIONS |
| PRODUCTION                                              | \$46 | DOMESTIC BOX OFFICE  | \$75     |
| MARKETING                                               | 20   | FOREIGN BOX OFFICE   | 100      |
| CUT TO STARS/DIRECTOR                                   | 22   | WORLDWIDE HOME VIDEO | 100      |
| HOME-VIDEO MARKETING                                    | 10   | WORLDWIDE PAY TV     | 20       |
| TOTAL COSTS                                             | \$98 | SOUNDTRACK           | 20       |
| PERCENTAGE OF GROSS                                     |      | BOOKS                | 3        |
|                                                         |      | TOTAL REVENUES       | \$318    |
|                                                         |      | VIACOM'S PROFITS     | \$220    |

DATA: SEIDLER ADEEC SECURITIES INC., BUSINESS WEEK

To generate the buzz the film needed, Paramount spent nearly double the \$12 million the industry currently averages to promote a major film. A four-minute trailer, twice the usual length, was placed in 11,000 theaters, vs. the usual 5,000. Paramount produced four different versions of TV commercials, each 60 seconds instead of the usual 30. Motorists in the top 20 markets were bombarded with billboards proclaiming: "Gump Happens." By the time the film opened on July 6—a week earlier than planned to avoid Arnold Schwarzenegger's special-effects-jammed *True Lies*—8 of 10 U.S. consumers had seen *Forrest Gump* ads an average four times apiece, says Paramount's marketing president, Arthur Cohen.

By then, the *Gump* buzz was ablaze. Hanks was on the cover of *Us* magazine, *Gentleman's Quarterly*, *USA Weekend*, and was making the rounds of Letterman, Leno, and the morning shows. Paramount's Pocket Books unit shipped 800,000-plus paperback copies of Winston Groom's 1986 novel and an additional 140,000 copies of a specially compiled book of Gump-isms. A double CD of the movie's soundtrack of '60s vintage hits, distributed by Sony Corp.'s Epic music unit, has already passed the 1 million mark and is selling at a faster rate than the 3 million units of the hit *Sleepless in Seattle*.

**UNCERTAIN FUTURE.** How much further can *Gump* go? With box-office sales of \$109 million in just 18 days, it falls close behind *Jurassic Park* and *Batman* as the fastest films to gross \$100 million. Viacom officials say privately they're expecting the movie to approach the \$242 million generated by *Raiders of the Lost Ark*, Paramount's top seller. Plans are under way to distribute the movie overseas this fall and on video next year.

Still, it's uncertain that *Gump* signals a return to Paramount's '80s heyday. The studio's next release, Tom Clancy's *Clear and Present Danger*, starring Harrison Ford, is getting a boost from trailers that appear before most showings of *Gump*. Down the road is the first film to star the cast from its TV hit, *Star Trek: The Next Generation*. "I'd like to think we're on a real roll," says Paramount's film-unit chairman, Sherry Lansing, who green-lighted *Gump* six weeks after taking over in late 1992. But even Lansing knows nothing is forever in Hollywood. "Anytime you spend the kind of money we spend on any film, you're taking a huge risk," she says. "Right now, we're all feeling a little like Forrest Gump around here." No one more than Sumner Redstone.

By Ron Grover in Los Angeles, with Mark Landler in New York



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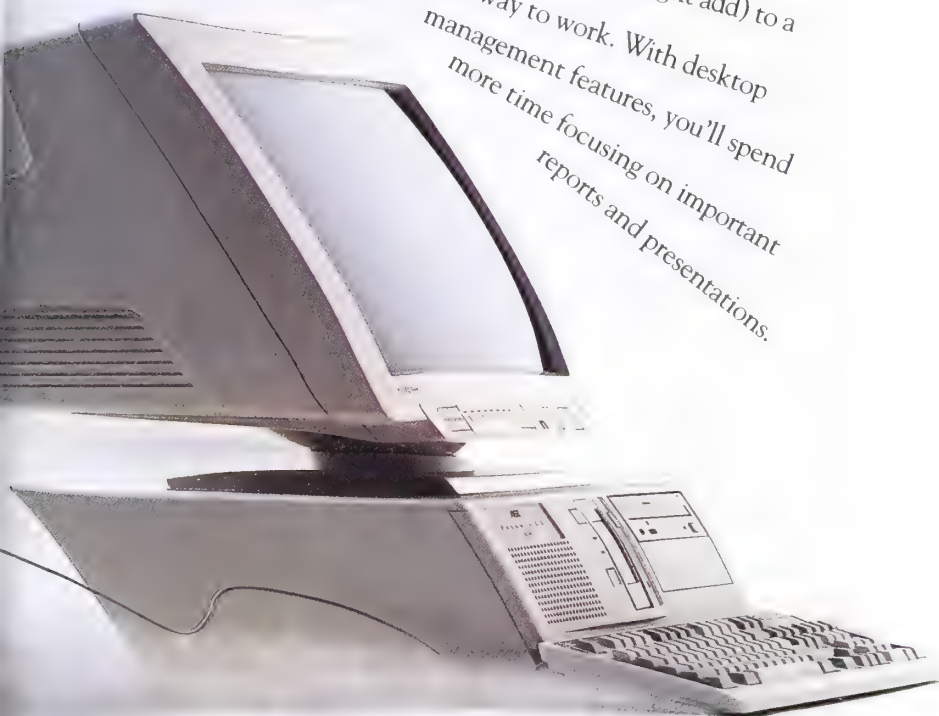
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EDITED BY THANE PETERSON

## IS JAPAN NUDGING MOTOWN TO ADAPT?

**D**etroit may get some unexpected help in its efforts to export cars to Japan. Ford says the Export-Import Bank of Japan, a quasi-governmental agency, approached it recently to discuss making low-interest loans available to the auto maker. The Ex-Im Bank wants Ford to use the money to convert its cars to right-hand drive for the Japanese market. In 1992, the bank and the Japanese government set up a system to provide such financing to foreign companies, but so far no money has gone to American carmakers. Ford Treasurer David N. McCammon has cau-

tioned that discussions about a possible \$300 million loan were still preliminary. Although Ford denies that it approached the bank, a spokesman for Ex-Im Bank in Tokyo confirmed a Japanese press report that "some" U.S. carmakers have requested loans. He confirms talks are just starting.

## WAL-MART HEADS FOR ASIA

**A**fter invading Mexico and Canada and recently announcing plans to establish outlets in Argentina and Brazil, Wal-Mart Stores seems poised to extend its reach into Asia. Former employees of the world's No.1 retailer are working with Thailand's Ek-Chia Distribution—which is part of the powerful Charoen Pokphand Group conglomerate—to develop a chain of discount stores throughout Thailand. Joseph Hendricks, a former Wal-Mart executive who is now vice-president for business development at Ek-Chia, says that Wal-Mart is training the company's managers in American retailing techniques. A source close to Wal-Mart says the giant retailer is also considering forming a joint venture with CP Group that would operate stores in China and Hong Kong. Wal-Mart executives couldn't be reached.

## A PDA MAKER IS SIGNING OFF

**D**espite all the hype, the personal digital assistant (PDA) market continues to run into static. Sales have been slow to take off, and now the pioneer PDA maker has bitten the dust: AT&T said that EO, in which it holds a 52% stake, would cease operations on July 29, three years after it was founded. AT&T decided to pull the plug on the privately held company after two personal communicators proved to be too costly and ungainly to sell well.

## HEADLINER

## FOR LUCAS' CHIEF, TROUBLE ACROSS THE PON

**B**ritain's George Simpson has modest tastes. His hobbies include watching rugby and downing a pint at the local pub. But now, Simpson, 52—who took the helm at \$4 billion Lucas Industries in May, after turning carmaker Rover Group around—may not have time even for such diversions.

In late July, Lucas admitted publicly that it failed to test properly the wing-flap actuators on Boeing 767 commercial jets—although it and Boeing say that the parts pass inspection. Though Lucas denies published reports that the U.S. Justice Dept. has launched a criminal probe,

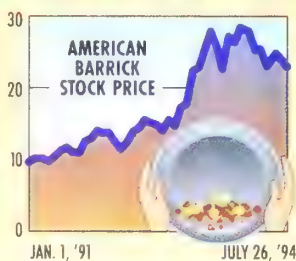
one may yet be started. On top of that, in May, Lucas paid a \$12 million fine after pleading guilty to supplying defective missile-launchers and radios to the U.S. Defense Dept. And a U.S. Attorney in Southern California is investigating whether Lucas intentionally supplied standard engine gearboxes to the Navy's F/A fighter-jet program.



a top law-enforcement source says. A spokesman says Lucas has fixed the gearbox glitches, but the incidents still are considered likely. Looks as if Simpson will be doing much drinking with the boys any time soon.

By Paula Dwyer

## CLOSING BELL



## GOLD DIGGER

**U**ntil this year, American Barrick Resources Corp. has been one of North America's premiere growth stocks. By the end of 1993, the market value of the Toronto-based gold producer had soared to \$8.2 billion, up from just \$2 billion in 1989. Since then, its shares have trended down, as analysts fretted that its gold production was peaking. On July 25, Barrick tried to rekindle its fires with a \$1.5 billion bid for gold giant Lac Minerals Ltd., which has been in play since Royal Oak Mines' hostile offer on July 7. Most analysts believe Barrick will win, becoming the world's No. 3 gold producer. Investors aren't impressed: The stock is stuck at its pre-bid level near \$23.

DATA: BRIDGE INFORMATION SYSTEMS INC.

## HAPPINESS IS AN IPO THAT DOESN'T SINK

**A**s if more evidence were needed that the market for initial public offerings has cooled way off, even the Mighty Morphin Power Rangers can't make a big hit. On July 26, Happiness Express, which makes and markets toys based on the popular cartoon characters, went public with an offering of 1.5 million shares at \$10 each. In sharp contrast to last year's hot IPOs, the shares languished around \$10. Analysts deemed that a success, nonetheless: Most IPOs these days don't even hold their initial price. The company's optimistic symbol is HAPY.

## THE PATCH LOOKS KIND OF SPOTTY

**N**icotine-patch sales are skimpier than ever. On July 27, Marion Merrell Dow

reported that sales of its market-leading Nicoderm patch slipped to \$40 million in the first half of 1994, down 15% from last year's opening half. Industry-wide, says drug analyst Hemant Shah, sales this year may barely reach \$100 million in the U.S., down from \$225 million last year and from more than \$500 million in their introductory year 1992. Patchmakers may eventually try to salvage the product by asking for approval to sell it over the counter, rather than by prescription.

## ET CETERA...

- Top prospect to run the New York Stock Exchange: Richard A. Grasso.
- Hallmark Cards has formed a unit to produce "family-oriented" TV programs.
- Nextel brought in seasoned Xerox veteran Wayland Hight as its new CEO.
- More woes at Euro Disney: Losses mounted and revenues fell 21% in its third quarter.



## THE BLACK CAUCUS AS CLINTON RUNNING SCARED

In the midst of festivities celebrating the Israeli-Jordanian entente, President Clinton was busy trying to negotiate another peace accord—this one with the Congressional Black Caucus. On July 26, he met with caucus members, who are fumed over his Haiti policy and his stance on a pending crime bill. Clinton had little choice. He desperately needs to mend relations with the 40-member caucus for upcoming votes on health-care and welfare reform. Says a top White House aide: "The President was concerned that this group knew that they are valuable members of the team."

The caucus is hardly Clinton's only problem on the left. Liberals are sore at he crusaded for deficit reduction rather than a major expansion in social spending. Labor is angry that Clinton shed harder for NAFTA than for the led striker-replacement bill. And feminists fear he will abandon abortion coverage in his zeal for health-care compromise. "He can't walk away from his leftist troops," declares Representative Jim McDermott (D-Wash.), who is threatened to lead a liberal revolt against a watered-down health-care bill. Yet this rightward tilt was inevitable. Clinton relied on liberals to get elected and needs their support for his legislative agenda. But he also must broaden his appeal to moderate swing voters. And to eke out victories on Capitol Hill, he needs to cut deals with moderate and conservative Democrats. Liberals will feel even more left out if the GOP, as expected, makes major gains in the midterm elections. Says Erwin C. Hargrove, professor of political science at Vanderbilt University: "He's caught between the organized constituencies that he needs to pass programs and public opinion, which is less liberal."

The constituency posing the biggest problem is the Congressional Black Caucus. It has stuck by Clinton's legislative pro-

grams even though members were upset that he dropped his urban jobs program and abandoned civil-rights-post nominee Lani Guinier in the face of conservative pressure. But the caucus is furious that Clinton has distanced himself from a provision in the crime bill that would allow racial data to be used to challenge the death penalty. "This is a question of principle," says Representative Albert R. Wynn (D-Md.)

The caucus may send Clinton a message by helping the GOP block a floor vote on the crime bill. It's also demanding that the Administration try to preserve minority congressional districts under assault in the courts.

And it wants an extensive jobs program to accompany the proposed two-year limit on welfare benefits. But that could doom reform. "If they raise the ante, there could be no bill or a Republican bill," says a White House official.

**FLORIO EFFECT.** With liberals in a funk, Democrats might pay a price at the polls. "If people are not enthusiastic, they are not going to work for a candidate," says a union official. Low voter turnout could also be a disaster. When former New Jersey Governor Jim Florio tried to run for reelection as a New Democrat in 1993, low black voter turn-

out sealed his defeat. "If the choices Clinton makes are toward the New Democrat direction, he will face the same problems as Florio," warns David Bositis of the Joint Center for Political & Economic Studies, a Washington think tank.

That may be. But if Clinton moves to the left, he risks alienating the independent and blue-collar voters he also needs. Clintonites are praying they can continue to finesse the New Democrat message and Old Democrat support. But at some point, worried liberals may force Clinton to answer the question in that old union song: "Which side are you on?"

*By Susan B. Garland and Richard S. Dunham*



CLINTON AND BLACK CAUCUS MEMBERS LAST YEAR: A MORE PALPABLE SKEPTICISM NOW

### CAPITAL WRAPUP

#### TELECOMMUNICATIONS

Just weeks ago, a sweeping overhaul of the nation's telecommunications laws seemed a sure thing. But now the measure is on hold. The sticking point: how fast to let the seven Baby Bells into the long-distance business. A House-passed bill would let the Bells in after a fixed period of time. But long-distance companies fear the Bells would use revenues from their local monopolies to subsidize long-distance service. And they persuaded key senators to adopt amendments that would let the Bells in only after they face real competition in their local markets. As a result, the Bells have

withdrawn their support for the bill. Although the White House is trying to broker a deal, with Congress expected to recess on Aug. 12, chances of legislation passing this year are dim.

#### ELECTIONS

Republicans and Democrats agree on one thing: 175 House seats are in play, 40 held by the GOP and 135 occupied by Democrats. Republicans believe they will gain from 15 to 40 seats, with 20 being likely. That could give them a working majority on issues from welfare to the line-item veto. One encouraging sign for the GOP: 38 House Republicans are unopposed, compared with only 27 Democrats.

#### ANTITRUST

After eight years of trying, House Judiciary Committee Chairman Jack Brooks (D-Tex.) may finally peel back a 50-year-old antitrust exemption for the insurance industry. His committee approved a compromise measure on July 22, after grueling negotiations with two insurance groups—the American Insurance Assn., which represents large companies, and the Independent Insurance Agents of America. Brooks hopes to attach the bill to health-care legislation. In the Senate, a narrower measure covering health insurers was attached to health-care-reform bills approved by two panels.



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## THE PEACE DIVIDEND FOR ISRAEL AND JORDAN

Political changes could benefit the entire region, luring investment and tourism

**U**mayyah Toukan, the head of Amman's small but bustling stock exchange, was wary of talking to his Israeli counterpart at a financial conference in London last April. After all, the 46-year-long state of war between Israel and Jordan had put a chill on most contacts. "We both presented papers at the podium, and that was about it," recalls Toukan.

All that has changed now. Just minutes after watching Jordan's King Hussein and Israeli Prime Minister Yitzhak Rabin end their state of war in Washington on July 25, Toukan says he wants to forge links between the Amman and Tel Aviv exchanges. "We're optimistic," says Toukan. The stock exchange chief has already seen one other important payoff. Waves of buying in mid-July by investors anticipating a peace bonanza for Jordanian companies finally turned Amman's 10-month-old bear market around.

The bullishness could be contagious.

The Hussein-Rabin pact could be just what it takes to give the Middle East peace process irresistible momentum. With Jordan on board, Syria, the last major holdout to cutting a deal with Israel, has few cards left to play. The sweeping political changes could set the stage for a reversal of economic misfortunes in the long-troubled eastern Mediterranean region. One believer is Stanley Fischer, chairman of Massachusetts Institute of Technology's economics department. "There is bound to be an expansion of trade," he says. "Trade is good; peace is good; and investment is good, and all those things are going to happen."

It looks as if there will be a quick economic payoff for Jordan and Israel, which already have a list of proposed projects (table). That's why this deal could prove to be so different from Israel's two previous peace agreements with Arab neighbors. The hostile Arab

reaction to the 1979 Camp David accords caused Egypt to settle into a kind of cold peace with Israel, with very little two-way trade. The economic dividends from the new agreement with the Palestine Liberation Organization are also likely to be slow to emerge because of lingering hostility between the two sides and the moribund state of the Gaza and West Bank economies.

Jordan could use a quick lift. King Hussein and his 4.1 million constituents

**THE ECONOMIC  
PAYOFF FROM  
THE WASHINGTON  
AGREEMENT**



d a heavy price for keeping his links Iraq's Saddam Hussein during the war. The Persian Gulf states angry off their aid, forcing Jordan to schedule its \$7.3 billion in foreign debt 1992.

To help entice Hussein to the negotiating table, the Clinton Administration has been dangling promises of debt forgiveness since last winter. Now, Clinton is asking Congress to forgive all of Jordan's \$702 million direct debt with the U.S. The U.S. is also offering the Hashemite kingdom military aid and its own offices in interceding with other foreign debtors. For an economy whose gross domestic product totals little more than \$4 billion, these moves could provide a dose of economic adrenaline.

**JORDAN PROJECT.** Jordan should also benefit from a rapid increase in tourism. The Washington Declaration calls for opening new border crossings between the ports of Eilat and Aqaba and in the Gilead region, as well as first-time-ever electricity and phone links. This will make it easier for Holy Land tourists to visit such Jordanian attractions as the ruined desert city of Petra and the Grand Canyon-like Wadi Rum, where *Tomb Raider* was filmed. Already,

Aviv-based Galilee Tours is planning trips to Jordan for Israeli citizens who do not hold non-Israeli passports. In Amman, prominent tour operator Tawfiq Al-Najjar predicts that the number of foreign tourists visiting Jordan will rise by at least 25% in the coming months.

Jordanian executives are already involved in a huge tourist project: a \$1 billion plan to build hotels, amusement parks, and health spas along the Israeli-Jordanian border at the barren northern tip of the Dead Sea. The project is led by Africa Israel Investment Ltd., a Tel Aviv-based real estate developer. Other possible investors: Holiday Inns Inc. and South African tycoon Sol Kerzner, developer of Las Vegas-like Sun City. Africa Israel CEO Shlomo Grofman says investors "sense that the Middle East is finally starting to change, and they want to be in on it."

The terms of trade between the two countries will probably be hashed out in negotiations in early August. Jordan, with substantially lower labor costs than

either Israel or the Palestinian territories, is pushing for access to Israeli markets. Some Israeli companies are worried by the prospect of uncontrolled imports of cheap Jordanian cement, wood products, and textiles.

But in many ways Israel's economy stands to gain the most from peace. King Hussein's move to withdraw from the half-century-long Arab economic boycott of Israel is the latest and biggest breach of the sanctions. The Israel Chamber of Commerce estimates that the boycott has cost the country some \$40 billion in lost trading opportunities



**RABIN, HUSSEIN, AND CLINTON: BYE, BYE TO JORDAN'S DEBTS?**

since the creation of that state in 1948.

The erosion of the boycott is already leading to a major increase in Israeli investments by companies that once shied away for fear of being placed on the Arab boycott list. U.S. hospital supply giant Baxter International Inc., which was hit with \$6.5 million in U.S. government fines last year for complying with the boycott, is now investing in Israeli venture-capital groups.

Companies from Asia and Europe—areas highly dependent on Arab oil—have been the most reluctant to do business in Israel. Now, though, Germany's Volkswagen is negotiating with Israel Chemicals to build a magnesium plant at the Dead Sea. Top executives from Daimler Benz have been discussing train and highway projects linking Israel and its Arab neighbors. And all of Japan's major carmakers have now opened up offices in Israel.

Many Israeli companies consider the opening to Jordan a prelude to entering

the Gulf region's rich markets. Although they won't have the importance of Europe or North America for Israel, some Israeli companies stand to benefit handsomely. Israeli expertise in desert agriculture and medical technology is tailor-made for the area.

One Israeli company that's already carving out a market for itself in the Gulf is Herzeliya's Paradime Geophysical Ltd., a geological software firm. To help find customers in the Arab world's oil patch, Paradime last January set up a Cairo office manned by a Lebanese Muslim. In early June, it hit pay dirt: a sale to Saudi Arabia, the world's biggest oil producer. The sale, says Paradime CEO Eldad Weiss, "should open up the entire Gulf market for us."

Many Israeli executives are saying that trade with Jordan will probably avoid some of the misunderstandings that have delayed Israeli-Palestinian ventures. "The Jordanians do not have the same hang-ups about dealing

with us," says CEO Benjamin Gaon of Israeli giant Koor Industries Ltd. Koor has set up a \$100 million joint-venture company called Salaam 2000 with Palestinian, Spanish, and Moroccan investors—but the new company still hasn't launched a single project.

**ATTITUDE SHIFT.** Gaon also says that the breakthrough agreements with Jordan are already changing Palestinian attitudes. Indeed, the Palestinian Authority's economics czar, Abu Ala'a, recently reversed the PLO's previous policy of discouraging business ventures with Israelis. And U.S. Administration officials say that even Syrian hard-liners in Damascus are also being swayed by the economic carrots of peace. As an added enticement, House Majority Leader Richard A. Gephardt (D-Mo.) and 42 other representatives have written President Clinton urging that the U.S.-Israel free-trade agreement be expanded to include any Arab countries that reach peace accords with Israel.

No one is arguing that there will never again be violence in the Mideast. Some low-level conflict, including terrorism, is inevitable. But the era of the entire Arab world confronting Israel is history—just like the cold war. The region's mainstream leaders want to bury past hostilities so as to give their countries a shot at prosperity.

By John Rossant in Rome, Neal Sandler in Jerusalem, Amy Borrus in Washington, and Stanley Reed in New York

Jordan is  
to get  
million in  
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➤ Better  
communication  
by opening  
telephone lines,  
airspace, border  
crossings,  
and deep-  
water ports

➤ Possible  
joint infra-  
structure  
projects such as  
a Dead Sea-Red  
Sea canal for  
electricity and  
desalinization

➤ Tourist  
joint ventures,  
including  
\$1 billion Dead  
Sea development.  
Number of  
visitors expected  
to jump



Commentary/by William J. Holstein

## IN JAPAN, PLUS ÇA CHANGE...

In so many respects, Japan seems to be changing. The political world appears to have been turned on its head, with a Socialist serving as Prime Minister. The Ministry of International Trade & Industry (MITI) has lost some of its grip, and Japan's business groups, or *keiretsu*, appear to be loosening their cozy ties. Consumers are winning more spending opportunities, thanks to the spread of 7-Eleven-style corner stores and big discounters. The air is filled with cries for "deregulation" and "reform."

All that leads some outsiders to conclude that Japan is undergoing a radical overhaul. In this view, Japan is evolving increasingly toward an Anglo-Saxon model. Its competitiveness will wane as consumers demand a better deal. Thanks to a high yen, foreigners will sell more of their products as Japan inevitably opens up. All the world has to do is wait, and Japan will change. This reasoning is at the heart of the Clinton Administration's strategy for tackling Japan's trade surplus.

But it is a dangerously misguided understanding. None of these forces will be allowed to go far enough or fast enough to undermine the core of Japan's competitiveness or its international economic expansion. Despite a whirlwind of change, Japan at heart is retaining and improving its political and economic model, not discarding it. "Our Japanese capitalism will remain Japanese capitalism," asserts Eisuke Sakakibara, a key official at the Ministry of Finance and author of the book *Beyond Capitalism*.

**■ POLITICS.** One of the worst areas of confusion is Japanese politics. On the surface, it seems that the entire postwar order has been shattered. First, Young Turks led by Ichiro Ozawa and Tsutomu Hata bolted from the long-ruling Liberal Democratic Party last summer and created an eight-party coalition that elected two Prime Ministers. Now, the Social Democratic Party's Tomiichi Murayama has maneuvered his way into power in a coalition with the rump LDP.

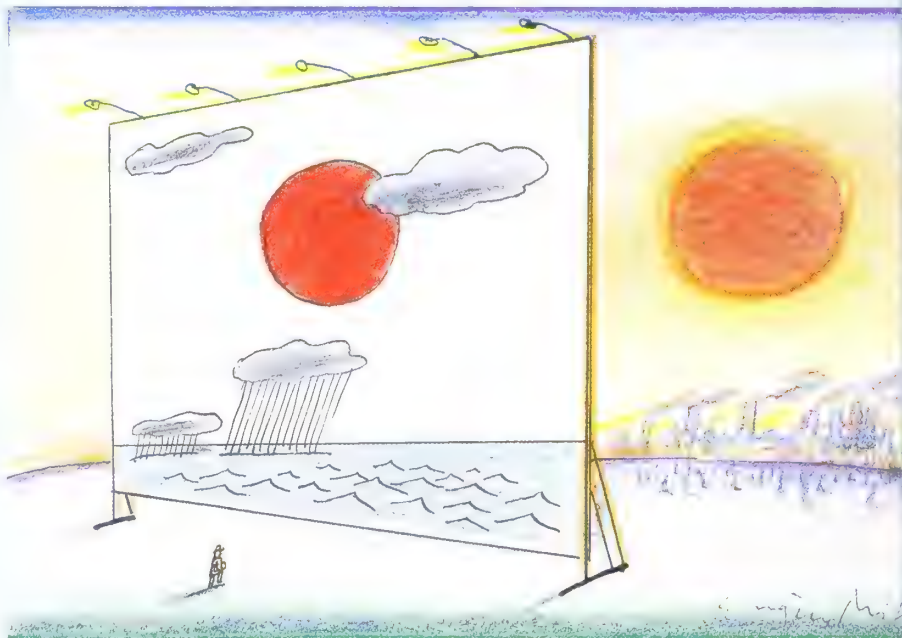
Does that mean a completely different kind of political leadership? Hardly. In effect, the LDP is using Murayama as a convenient front man to move itself back into the driver's seat. The 70-year-old

leader is quickly shedding his socialist spots to sign on to LDP policy positions. "The LDP is back in power," proclaims Koichi Kato, a ranking party member and potential Prime Minister. Meanwhile, the renegades have been banished to the political wilderness. The electoral reform laws that were enacted will set the stage for new elections, probably next year. But it's the LDP, not the opposition parties, that shapes up as the big winner.

Thus the pundits who argued that

around the world means MITI can possibly monitor their every step.

So in pursuit of a new role, the has become an unlikely convert form. The mandarins of MITI the are urging wholesale deregulation key sectors as telecommunication power generation. But MITI's go make Japanese industry more not less. And other ministries, particularly Finance, have gained power has faltered. These other minist



The political system is intact, the bureaucrats are losing power, and the *keiretsu* are gathering strength

Japan's reform-minded politicians were inevitably leading it toward Western-style pluralism were just plain wrong. Japanese politics is back to business, almost as usual.

**■ BUREAUCRACY.** The outside world also wanted to believe that the bureaucrats who really run Japan were being humbled. MITI's supposed fall from grace is a case in point. True, this preeminent symbol of bureaucratic omnipotence has lost an important measure of influence in recent years. The reason is that its client base, Japanese manufacturers, don't need MITI as much anymore. They are vastly more successful than they were 30 years ago. And the spread of their investments

entirely different visions of change MITI's. They want deregulation at the margins. So despite MITI's radical deregulation, there is no real challenge to bureaucratic control of the economy. It will be steady as she goes.

**■ KEIRETSU.** Outside of government, Japan's spinmeisters are arguing the *keiretsu*, the business groups form the backbone of Japan's economy are weakening. The evidence is seen in some sell-offs of the cross-holding companies in the groups and some decline in sales to each other.

The *keiretsu* that has attracted most attention in this regard is the *shoji*. In one notable case, trading com



shi Corp. sold 4.5 million shares of shi Bank, and the bank sold 3 million of Mitsubishi Corp. Group members n't seem to be selling as much to her. Executives say that sales of Mitsubishi companies to one another are now y below 10% of each company's total Mitsubishi Motors Corp. recently a flap by going outside its normal pattern to buy steel from South Korea's Mitsubishi Heavy Industries Ltd. has articularly aggressive in looking out-a group for parts.

ie Mitsubishi *keiretsu* fading away? not the way Minoru Makiyama, presi-f Mitsubishi Corp., sees it. What's ing is a natural step in the evolution subishii companies as they expand tionally, he says. Group cohesiveness akened only in areas where it's no necessary. In other sectors, the group pulling together. Mitsubishi Petro-al and Mitsubishi Kasei merged be-separately, the two chemical compa-re too small to compete against Dow Pont, says Makiyama. That is a classic e of *keiretsu* behavior—orchestrating rivial of weaker members.

disposal of cross-shareholdings, mean-has taken place only in a few isolated And the fact that group members king outward for suppliers or other ships when warranted is a sign of th. "There is more competitiveness iced with the weakening of the group says Makiyama. Like a flock of birds, rs of the *keiretsu* flew closer togeth-r 40 years ago when they were weak. w that they are more confident and "they can fly apart," he adds. So de-ppearances, the underlying trend in s *keiretsu* is one of gathering compet-ength and sharper international fo-t dissolution.

ector after sector, the real message okyo is: Yes, we Japanese are chang-it we're not giving up on our model or lues. We're just getting better. And expanding into the world.

t's what makes the confusion about e in Japan so tragic. "There are tre-tus changes that take place," says Glen kushima, vice-president of the Ameri-amber of Commerce in Tokyo. "But changes are not going to create auto-benefits for the outside world. The es that take place will benefit Japan." ooner the Western world recognizes entral truth, the better able it will be ne to grips with a new Japan that e even stronger than the old.

ernational Edition Editor Holstein has returned from a trip to Japan, China, outh Korea.

## 'WITHIN A YEAR, QUEBEC WILL BE A COUNTRY'

The Parti Québécois looks like a winner—and that's roiling Canada

**E**ver since it was founded in 1968, the Parti Québécois (PQ) has fought for more autonomy for the French-speaking province of Quebec. But never before have the PQ's leaders been so confident of their ultimate goal of independence. "In two months, we will have a new government" in Quebec, PQ President Jacques Parizeau told a rally of 1,000 cheering party workers on July 23, the night before Premier Daniel Johnson called elections for Sept. 12. "And within a year," Parizeau shouted, "Quebec will be a country."

It's not the first time Quebecers have promised to quit the Canadian federation. In fact, many English-speaking Canadians have lost count of all the times. But underestimating Quebec's nationalism could be dangerous for Canadians who want their country united. It's also risky for Americans, since an independent Quebec would have to negotiate admission to the North American Free Trade Agreement.

**DIM VIEW.** The PQ is on course to win a decisive victory against Johnson's Liberal Party in the September vote. Such a victory could trigger a final battle over Canadian unity because PQ leaders vow to hold a referendum on independence within a year of taking power. No wonder Johnson, 49, calls this "the most important election in my lifetime."

The reverberations already are being felt. For one thing, international markets are "taking a dim view of Canada," warns John McCallum, chief economist at Royal Bank of Canada. The Quebec question, combined with Canada's huge debt burden, has clobbered the Canadian dollar, which is now worth around 72¢ U.S. Desperate to find international buyers for its bonds, Canada has imposed interest rates that, adjusted for inflation, are the highest of any major industrial country. Canadian three-month treasury bills are paying around 6%, compared with 4.4% for U.S. T-bills.

Economists worry that the financial tremors could worsen. "The markets will react very negatively if the PQ wins a large majority," predicts Brian I. Ney-smith, president of the Canadian Bond Rating Service. "International investors will decide that Canada is not the safe haven it used to be," adds Robert Fair-holm, chief forecaster for DRI Canada. He fears the dollar could fall to an all-

time low of 67¢. Another fear is that growth could slow, driving unemployment above the current 10.3% level.

The Liberals are hoping they can make a strong case that Quebec cannot afford another battle over sovereignty. And they point out that a majority of Quebecers opposes independence, according to most polls. Quebecers are well aware, however, that even if they elect the PQ now, they'll have a chance



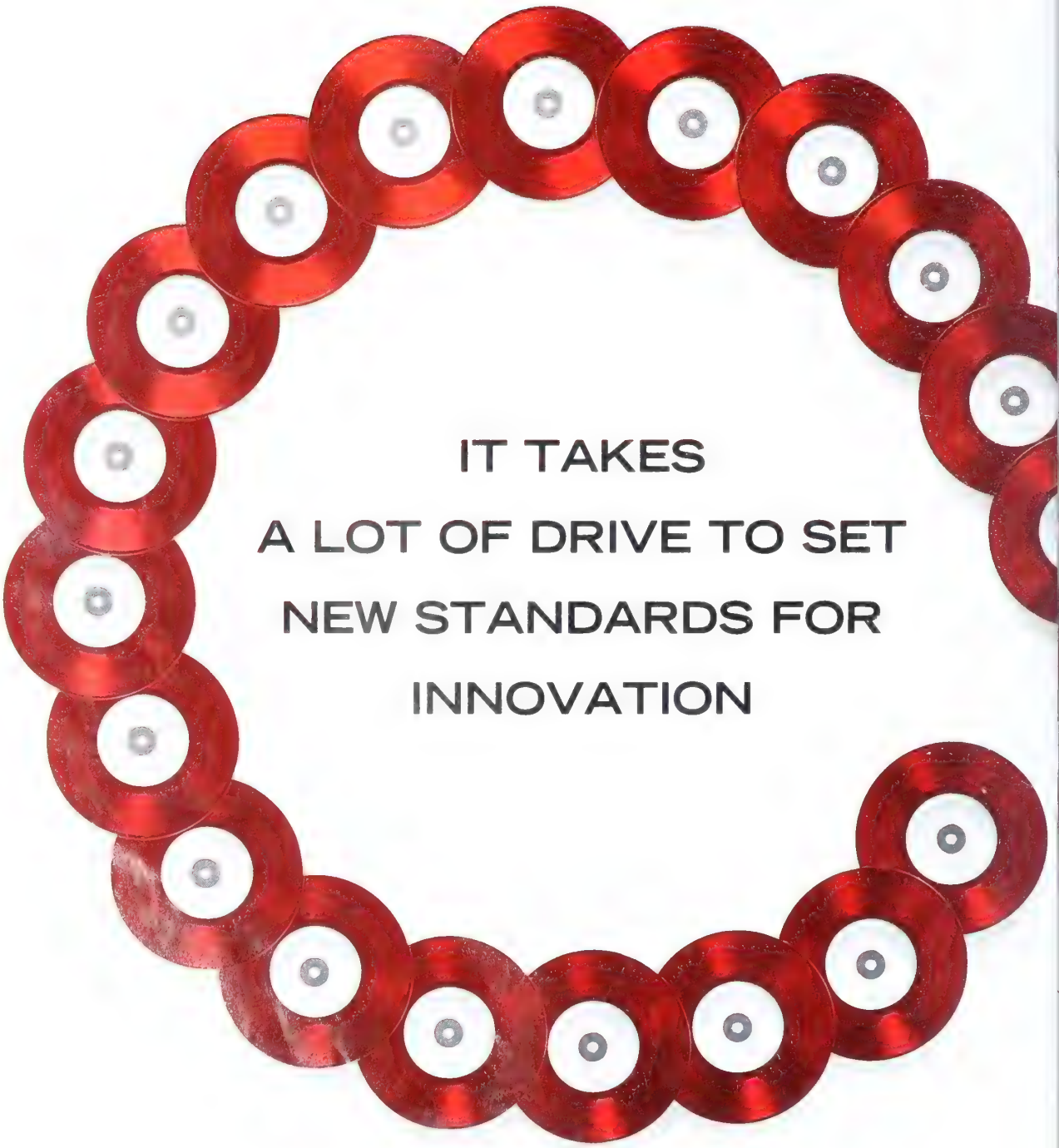
PARIZEAU: PUSHING A BREAKAWAY VOTE

to vote on independence next year. "The Liberals spent the last nine years trying" but failing to win increased autonomy for Quebec, charges Bernard Landry, PQ vice-president. "Now, all they advocate is the status quo." In contrast, the PQ advocates political and economic independence, with just a few exceptions: They would keep the Canadian dollar and allow citizens to hold Canadian as well as Québécois passports.

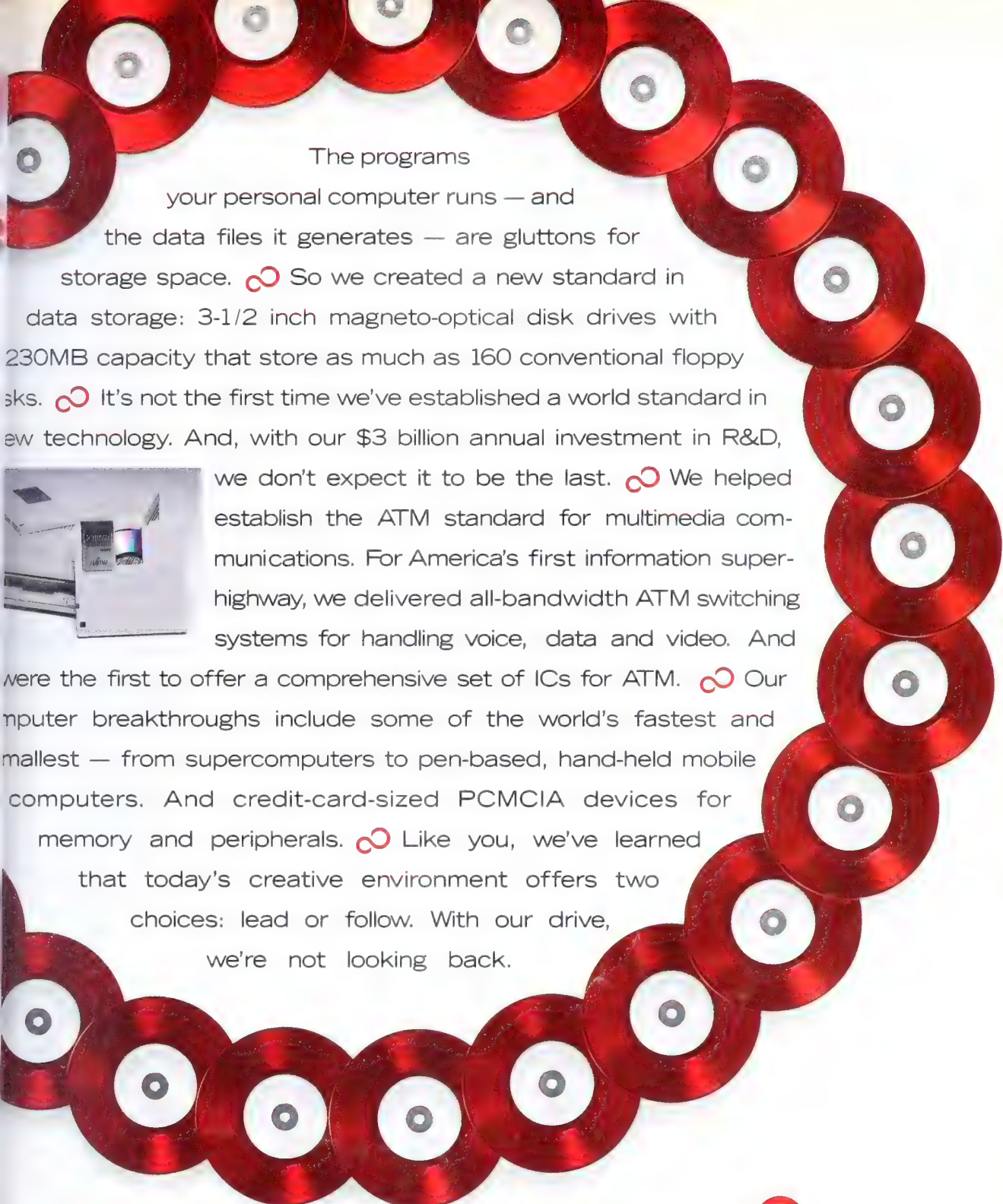
Parizeau, who is 63 and holds a doctorate from the London School of Economics, has made it clear that he would view a victory as a mandate to work for independence. "Once you start this process, it's like pulling a log out of a stack of wood," worries Guy Saint-Pierre, CEO of SNC-Lavalin Group Inc., Canada's largest engineering firm. "Once you pull one log, no one is in control of events." The safe haven that is Canada is in for some serious roiling.

By William C. Symonds in Montreal

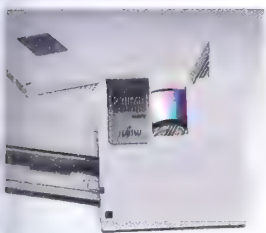




**IT TAKES  
A LOT OF DRIVE TO SET  
NEW STANDARDS FOR  
INNOVATION**



The programs  
your personal computer runs — and  
the data files it generates — are gluttons for  
storage space. ∞ So we created a new standard in  
data storage: 3-1/2 inch magneto-optical disk drives with  
230MB capacity that store as much as 160 conventional floppy  
disks. ∞ It's not the first time we've established a world standard in  
new technology. And, with our \$3 billion annual investment in R&D,  
we don't expect it to be the last. ∞ We helped  
establish the ATM standard for multimedia com-  
munications. For America's first information super-  
highway, we delivered all-bandwidth ATM switching  
systems for handling voice, data and video. And  
we were the first to offer a comprehensive set of ICs for ATM. ∞ Our  
computer breakthroughs include some of the world's fastest and  
smallest — from supercomputers to pen-based, hand-held mobile  
computers. And credit-card-sized PCMCIA devices for  
memory and peripherals. ∞ Like you, we've learned  
that today's creative environment offers two  
choices: lead or follow. With our drive,  
we're not looking back.



∞  
**FUJITSU**

**COMPUTERS, COMMUNICATIONS, MICROELECTRONICS**



## INCHING BACK INTO MOTHER RUSSIA'S ARMS

**T**hree years ago, when the Soviet Union disintegrated, Ukraine and Belarus grabbed at the chance for independence. The West, unsure how to respond, was slow to extend aid and investment. Now in dire economic straits, the would-be nation-states are returning to Mother Russia's arms like wayward sons who couldn't make it on their own.

That's the message from the surprise July elections that brought in pro-Russian and pro-free-market Presidents in both countries: Leonid Kuchma in Ukraine and Alexander Lukashenko in Belarus. Both rode a wave of disillusionment stemming from 40% to 50% plunges in output blamed in part on the separation from Russia. These new leaders argue that reintegration with the Russian economy offers the best shot at salvaging falling standards of living.

But some analysts fear that Russian President Boris Yeltsin will be tempted to try to take advantage of these republics' economic weakness to reassert control over them politically. "Russia is going to try to retake the empire," says Paul A. Goble, a senior associate at the Carnegie Endowment for International Peace in Washington. "It will fail, but there will be bad consequences." He warns, for example, that Russian heavy-handedness could spark nationalist violence against the millions of ethnic Russians living in Ukraine and Belarus, tempting Moscow to intervene militarily.

**TOO FAR?** Western critics of Russian muscle flexing argue that the U.S. should pressure Moscow not to interfere with the republics' independence. But the Clinton Administration, which has been accused of favoring Moscow in dealing with former Soviet republics, shows no sign of shifting gears.

Ukrainian nationalists also are watching the reintegration and vow to launch potentially violent protests if it goes too far. "The big danger is that Ukraine will create an economic union

with Russia and then a political union," says Volodymyr Ceniuk, an adviser to Ruhk, the leading nationalist group.

Over the next few months, economics will be the focus of talks between the three Slavic states. They are discussing setting up an organization modeled on the European Union to succeed the Commonwealth of Independent States. Kazakhstan and other former Soviet republics may join—creating a trade bloc including most of the former Soviet Union. This would be dominated by Moscow, which far outweighs the other two in both military might and economic resources such as energy.

Ukraine and Russia are already enacting trade liberalizing tariffs on trade. Another plan, says Nikolai P. Burmistrov, a Ukrainian Foreign Ministry official, is to create a joint, partly state-owned companies in Russia in key sectors such as oil, steel and vehicle production. Russia also plans to subsidize its energy exports to its poorer neighbors.

Since Russia is further along with reform than Ukraine or Belarus, closer ties are likely to nudge them in the direction of open markets. Both of the new leaders say they want to speed up state privatization drives.

But with major economic improvement a long way off, some Russians, including Victor Kremenjuk, an analyst at Moscow's Institute for the U.S. & Canada, worry that Ukraine and Belarus will prove an expensive burden for already strapped Russia. Kiev is several billion dollars in debt to Russia for oil and gas. Belarus hasn't much to offer besides cheap and well-educated labor force that Russia doesn't need. "The question," says Kremenjuk, "is what price Russia is willing to pay?" The answer may be quite a bit, if that helps Moscow regain lost power and prestige.

*By Peter Galuszka in Moscow, with Roma Ihnatowycz in Kiev and Christopher Pala in Minsk*



UKRAINE'S PRESIDENT-ELECT KUCHMA

### GLOBAL WRAPUP

#### KOREAN LABOR TROUBLES

**I**t may be back to the bad old days for Hyundai, the huge South Korean *chaebol*. After having seemingly settled the worst of its labor problems last year, the group is experiencing a strike at Hyundai Heavy Industries Co.'s shipbuilding yard in Ulsan that has already cost \$250 million in lost orders.

The Hyundai workers, who have been on strike for a month, are demanding wage hikes of more than 20% and partial management control. Now, sympathy strikes are starting to pop up at sister companies. Speculation is growing that the government could

send in the police force to break the strike, a measure it frequently resorted to when Korea was ruled by the generals.

#### UNCONVENTIONAL CONVENTION

**W**ith just weeks to go before the Aug. 21 presidential election, the Mexican government is in for yet another embarrassment. Subcommander Marcos, the masked guerrilla whose New Year's Eve revolt in Chiapas first knocked the government off balance, is staging what he calls a National Democratic Convention deep in the Lacandona jungle starting on Aug. 6. Many of the country's leading political and academic pundits are expected to attend,

sleeping bags and all. They'll discuss the social and political reforms they want carried out when the next president takes office in December. Government officials, eager to prove they provide an intimidation-free election process, are expected to let the convention proceed.

Some intellectuals have been urging the media-savvy Marcos to strip off the anonymity of his ski mask and head a new leftist political party that would push for the reforms. Tensions were ratcheted up after an opposition candidate for governor in Chiapas was gravely injured by a runaway truck that crashed into his car. The candidate's wife is charging foul play.



## WHERE THERE'S SECONDHAND SMOKE...

landmark case could be hazardous to Big Tobacco's health

The late Burl Butler should be the perfect client for lawyers looking to defeat the seemingly invincible tobacco industry. He didn't smoke or drink. He rarely wore during his 60 years of life. He read the Bible so much that he had to buy new copies as old ones wore out. And he was exposed to toxic chemicals only a few times. He was, in fact, a paragon of clean living. When Butler got lung cancer, allegedly caused by exposure to patrons who smoked at his barbershop in Laurel, Miss., his lawyers brought one of the first—and most closely watched—passive-smoking cases.

Now, Burl Butler and his lifestyle are the focus of a struggle that holds huge consequences for tobacco companies. The Butler case, when it goes to trial—perhaps early next year—is expected to be the first in which the industry defends itself against an alleged death from secondhand smoke. The loss could unleash an avalanche of new litigation: Already, a passive-smoking class action suit has been brought in Florida by flight attendants. Butler's case is all the more critical because it

could be the first in which top-secret company documents about research into the health risks and addictiveness of nicotine and dangers of secondhand smoke are used as evidence at trial. At a hearing in mid-August, a Mississippi state judge will rule on whether two companies must turn over their internal records.



**BUTLER'S WIDOW: "MAYBE THIS WILL BE HIS CONTRIBUTION...TO LET PEOPLE KNOW SECONDHAND SMOKE CAN KILL"**

### THE BURL BUTLER SAGA

**MAR. 18, 1992** Nonsmoking barber Burl Butler is diagnosed with lung cancer in New Orleans.

**OCT. 21, 1992** Butler and his wife, Ava, sue R.J. Reynolds, Philip Morris, Brown & Williamson, and 10 other companies, claiming personal injury, fraud, and negligence. The lawsuit is the first major case alleging that secondhand smoke caused cancer.

**DEC. 16-19, 1992** Butler, in the midst of chemotherapy treatment, undergoes four days of depositions. Tobacco attorneys ask about a family history of cancer and imply he led a risky lifestyle.

**MAY 7, 1994** Butler dies in his Laurel (Miss.) home.

**MAY 12, 1994** Ava Dean Butler files wrongful death lawsuit in state court in Laurel.

Butler seemed to be a victim who could blunt the tried-and-true tactic of tobacco lawyers: They couldn't claim, as they have with smokers, that he knew the risks of their product but just would not stop using it. With that in mind, it seems, the defense has turned its strategy up a notch in the nearly two-year-old case. Although she can't prove it—and

lawyers for the defense deny it—Butler's widow, Ava, contends that the day before her husband's death the companies sent a helicopter to hover over her house as part of an effort to learn more about Burl's habits. Ava says two men in the chopper photographed her home and garden. But she says such pressures won't keep her from pursuing her husband's case. "Maybe this will be his contribution to his country, to let people know that secondhand smoke can kill you," she says.

**RISK-TAKER?** Tobacco lawyers insist that their tactics, though aggressive, represent a textbook defense. Their goal is to discover whether an individual's lifestyle or genetic makeup could have caused the fatal disease. "I think it's going to be very difficult for someone to come into court and say, No. 1, the scientific evidence proves that secondhand smoke causes lung cancer, and No. 2, that this plaintiff's lung cancer was caused by secondhand smoke," says Steven Parrish, general counsel of Philip Morris USA.

Still, the defendants, including R. J. Reynolds Tobacco Co. and Philip Morris, aren't taking any chances. From the moment Butler filed his suit, the defense has sought to portray the Korean War veteran and church deacon as a man with a risk-taking personality. Butler liked to hunt and to work with power tools. He occasionally ate red meat. Perhaps it was long-term exposure to hair spray and talcum powder that killed the barber, defense lawyers suggest. "Cancer is a lifestyle disease," says Charles R. Wall, associate general counsel for Philip Morris Cos.

Indeed, tobacco lawyers have sought information about everything from Ava's family recipe to the types of chemical fertilizers Butler was exposed to while plowing his father's farm with mules as a kid. Before his death in May, defense lawyers even asked to be present at Butler's autopsy, a request that was dropped out of fear of bad publi-



city. And no potential witness has gone unquestioned. Ava Butler says more than 100 people in Laurel have said that investigators have called or visited to learn if they ever saw Butler smoke. Butler lawyer Cynthia Lott says defense investigators have even visited out-of-state ex-boyfriends of Butler's daughters.

Such gamesmanship is not uncommon in hotly contested legal disputes. And, as in the Butler case, it can yield results. Tobacco defendants have learned that at least three of Butler's 12 siblings suffered from some form of cancer. In fact, cancer may have contributed to the sudden death of Butler's father at age 65. What's more, Butler's decision to purchase a life-insurance policy shortly after he began suffering severe back pain—and just weeks before the formal cancer diagnosis—may indicate that he suspected a life-threatening disease even though he said that the cancer diagnosis was a surprise. Defense lawyers claim to have uncovered people who will testify that they saw Butler smoke in his shop—a contention that the plaintiffs flatly deny.

Along with the lifestyle inquiry have come the bare-knuckled legal tactics that have helped the industry avoid ever losing a smoking case. At the first hearing, industry counsel hit the Butlers with what plaintiffs' lawyers call "the wall." More than 28 lawyers appeared on behalf of the 13 defendants and denied every request plaintiffs made—a move that adds expense and delay to any case. **OUTSIDE HELP.** During a deposition at a hotel in December, 1992, just weeks after Butler underwent chemotherapy, he answered questions for four consecutive days. He suffered a nosebleed during one session, but the deposition continued. The defense wanted to know why he never hung a no-smoking sign to stop people from fouling the air in his four-chair barbershop. Butler explained that banning smoking would have cost him substantial business.

With so much riding on the outcome of the suit, Butler's Jackson (Miss.) lawyers have turned outside for help. Last November, they recruited Ron Motley, a nationally known class-action lawyer with a financial war chest amassed through successful asbestos litigation.

Only time will tell if that will be enough to win in the Jones County courthouse in Laurel, where a Civil War memorial stands to the left of the entrance and a scar in the courtroom wall marks the spot where the electric chair once sat. Years ago, people climbed trees to get a look at executions. So far, there's no evidence that the present-day proceedings will be any more civilized.

*By David Greising in Laurel, Miss., with Laura Zinn in New York*

# Information Processing

COMPUTERS

## CAN SUN MICROSYSTEMS BREAK THROUGH THE CLOUDS?

The onetime highflier eyes a new niche in corporate networks

**F**or Sun Microsystems Inc., the recent World Cup was a golden opportunity to strut its stuff. More than 1,100 of Sun's engineering workstations and other computers, networked across the country, handled everything from logistics and security to recording the game scores and statistics. Sun couldn't resist bragging. So in one advertisement, it outlined "the special challenge of running a business that says KICK ME."

Sun should know: Kicking the onetime highflier has been the favorite sport for customers and Wall Street analysts. With good reason. Over the past two years, Sun has missed deadlines for new machines, lost the performance lead, and shipped some buggy software. The result: Sun's sales growth fell from 20% in fiscal 1993 to 9% in fiscal 1994, ended June 30. Its stock is trading at around 22, down from nearly 31 in March.

**ATTACKING.** Rivals are getting in their licks, too. Hewlett-Packard Co. and Silicon Graphics Inc. have stolen some of Sun's traditional engineering customers with speedier machines. And ultrafast personal computers—powered by Pentium microprocessors from Intel Corp. or PowerPC chips from IBM, Apple Computer, and Motorola—are attacking from below.

Suddenly, the workstation market Sun dominates looks less promising. Until two years ago, workstations were the fastest-growing market segment and these powerful desktop machines seemed destined to take center stage in corporate networks. It hasn't happened. Last year, workstation sales grew 7%, to \$10.5 billion, as PC sales jumped 15%, to \$73.7 billion, says market researcher Dataquest Inc.

All this adds up to whopping growing pains for what has been one of computerdom's brashest and most influential forces. As Sun's go-go momentum has slowed and its forays into PC markets and software for PCs haven't panned out, even Chief Executive Scott G. McNealy

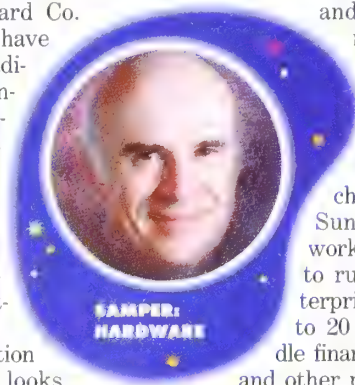
has toned down his notorious rhetoric. Focusing on Sun's challenges, he no longer dismisses rivals such as Compaq Computer Corp. with one-liners such as "big hat, no cattle."

Not that McNealy is moping—or is reason to. Buoyed by strong sales in new workstations and server computers to run networks, fiscal 1994 profits rebounded 25%, to \$196 million, from a weak 1993, on sales of \$4.7 billion. Sun retains a commanding 37% share of the still-healthy workstation market and has a massive base of customers. And its newest *raison d'être*—selling the hardware and software for entire corporate networks—is a logical next step.

Indeed, McNealy thinks he has hit on a strategy that will restore Sun's momentum by riding two emerging computer-industry waves: "downsizing" and "upsizing." Many corporations are downsizing off multimillion-dollar mainframes and onto cheaper, flexible networks of smaller machines. At the same time, small departments and branch offices are upsizing from flimsy PC networks anchored by souped-up PCs. Sun's weapons: dirt-cheap workstations, midsize servers to run PC networks, and "enterprise" servers that gang up to 20 microprocessors to handle financial reporting, inventory, and other mainframe-scale jobs.

Of course, McNealy isn't ignoring flashier opportunities: Sun has formed a new unit to chase Information Superhighway business, and on July 11 it announced a joint venture with France's Thomson Consumer Electronics to build interactive-services setups to let cable and phone companies offer such services as home shopping and virtual classrooms. But, McNealy stresses, Sun's focus is business applications: While other computer makers announce cable set-top boxes and "Beavis and Butt-head" on demand, he says, "we're building the corporate Information Superhighway."

If so, the company is off to a promising





start. Sales of its midsize "database servers," which hold data for networks of workstations and PCs, nearly tripled last year, to \$485 million, says Dataquest. Minneapolis-based catalog retailer Fingerhut Cos. avoided having to buy a new mainframe by adding two Sun servers to its customer service and ordering system. The most high-profile win stems

from a commercial view to Sun," says Dennis Walsh, chief information officer of New Orleans-based Entergy Corp., a \$6 billion electric utility.

Meanwhile, McNealy now has Sun's service arm reporting directly to him and has boosted the customer-support staff to 2,000 employees. While employment in the rest of the 13,300-person

department. Because it has failed to get other high-volume computer makers to use its design, it may be difficult for Sun's chipmaking partners—Texas Instruments Inc. and Fujitsu Ltd.—to fund the design and manufacturing to match Intel and the PowerPC partners.

Chips aren't the only problem area. When Sun revamped its Solaris operating



## KEEPING SUN'S UNIVERSE INTACT

### MANAGEMENT

Three years after breaking Sun into autonomous divisions, CEO McNealy needs to coordinate his sales effort

### FINANCIALS

Annual net profit growth target of 15% is doable only if roller-coaster sales growth is consistently in the double digits

### CHIPS

Sparc chips are already behind powerful entries from competitors. Sun must prove its technology isn't out of gas

### SOFTWARE

Bugs in the new Solaris operating system are finally gone, but customers are still wary of the software

### CUSTOMER SUPPORT

Saddled with a reputation for poor service, Sun has to beef up support for demanding corporate customers

### MARKETING

With growth slowing in workstations, emphasis is shifting to corporate network

from a 1993 alliance with mainframe maker Amdahl Corp. In May, Charles Schwab & Co. tapped the team for up to 100 workstations and 100 servers to run 204 branches.

**NEW TARGETS.** But attracting more big customers will require nothing less than wholesale change in how Sun does business. Traditionally, it has sold mostly to technical customers, who don't require much hand-holding. Its salespeople were notorious for saying *sayonara* after the sale, says Alex Newman, executive director of the independent Sun Service Group. That practice won't do in Sun's new target markets, where such companies as IBM have worked closely with customers for decades and Sun is relatively unknown. "Moving to the commercial market attacks competitors where they're strong," says Goldman, Sachs & Co. analyst Barry F. Willman.

Improving customer service and support is now a top priority. And that's where J. Phillip Samper, the new head of Sun's hardware unit, could make a very big difference. A balding, 59-year-old veteran of 28 years at Eastman Kodak Co., Samper knows Sun's target corporate customers much better than his thirty-something colleagues—and plans to beef up marketing and advertising to tell them the Sun story. "He brings a com-

pany remains flat, the service group will grow 15% a year. Sun has also allied itself with Andersen Consulting, Electronic Data Systems, and others to help customers set up networks. Some customers like what they see, but Sun isn't satisfied yet. "The sales and service teams are too light," concedes SunService President Lawrence W. Hambly.

McNealy is also fine-tuning a 1991 reorganization that broke Sun into autonomous "planets," each with its own sales force. "It presented a very disjointed picture, especially to commercial customers," says former SunService manager Jay Friedman, now director of research at Prognostics Inc., a Menlo Park (Calif.) customer-survey company. In July, McNealy folded four software units into SunSoft, the operating-system arm.

While all this has been going on, Sun has been addressing lingering technology problems, too. Its Sparc chips have been late and underpowered—to the point that some Intel-based PCs outperform some low-end Suns. McNealy concedes Sparc's flagging performance, but he promises that new "UltraSparc" chips, due early next year, will turn the ratings around. But Sun faces long-term challenges in the chip

ing system two years ago, old applications crashed or didn't run at all. The bugs are fixed, but many customers still haven't moved to the new version. Bugs also crippled Wabi, a program to run Windows programs on Unix. Another Solaris version for PCs has failed to catch on. All that turned off potential customers. The Alberta Cancer Board, a non-profit health agency in Edmonton and longtime customer, has switched to Microsoft's Windows for desktop machines.

Still, for all the glitches and challenges, Sun has held its ground. Even if it doesn't always have the fastest workstations, they're good enough for most customers and they're priced right. Last

March, Sun cut workstation tags as much as 50%, which helped fourth-quarter sales. Even so, Sun still has gross margins of 41%, vs. 25% for PC makers.

Says International Data Corp. analyst David Card: "They're doing better than they get credit for." And, if McNealy can get his "rightsizing" strategy working, Sun could regain lost momentum. Who knows? Maybe then somebody will take the "Kick Me" sign off its back.

*By Robert D. Hof in Mountain View, Calif.*





# AMERICA'S LATEST SOFTWARE SUCCESS STORY IS GERMAN

SAP's business applications have taken the Valley by storm

**W**hen Chevron Corp. chose German software maker SAP over a host of better-known U.S. suppliers to revamp its financial reporting system in 1992, the company was virtually unknown outside Europe. A year later, the \$700 million company was No. 1 in the world in what may be the hottest market in software: applications packages for so-called client-server networks. SAP's chief rival, Oracle Corp., was so stunned by the rearguard attack that executives published an internal manual on how to counter SAP. "They're giving us hell in the U.S., and we're going to do the same to them in Europe," says Raymond J. Lane, presi-

Inc., will zoom from \$750 million in 1993 to \$5.9 billion in 1996.

In the process, SAP is on its way to doing what few European software makers have done: conquer the U.S. market. In late 1992, SAP planted its U.S. development center in Foster City, Calif.—one lagoon away from Oracle's headquarters. Now, SAP's U.S. client list reads like a who's who of Silicon Valley, including Apple Computer, Hewlett-Packard, and Motorola. But the real proof is in the numbers: Buoyed by the launch of the R/3 package, SAP's U.S. sales doubled in 1993, to \$140 million, and analysts forecast they will double again in 1994. Worldwide sales, in the meantime,

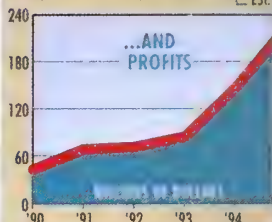
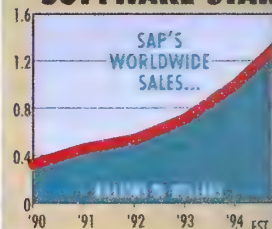
there may be lots of winners. Companies such as Dun & Bradstreet Software and startup PeopleSoft Inc., for example, are also betting on client-server applications. But for now, SAP is on top and, analysts say, it outdoes rivals in overall performance. Another plus: Unlike Oracle's Cooperative Applications, R/3 will work with more than one database program, including ones by Oracle, Informix Software, and, soon, Sybase. Another Oracle negative: Some customers question if they will stick with applications. "I was convinced Oracle is as committed to applications as to database and multimedia," says James E. Zell, project manager for advanced financial information systems at Chevron.

**R&D RICHES.** With the competition mobilizing, SAP is continuing its traditional tactics—pumping a huge 25% of sales into research and development—and adding new ones. Most important are aggressive marketing and sales techniques used by Klaus Besier, a former computer manager for a German chemical company, who became CEO of SAP America in 1991. One of Besier's moves: ending the \$140,000 annual limit on commu-

**CEO BESIER  
SHARPLY  
BOOSTED  
U.S. AD  
OUTLAYS**



## A EUROPEAN SOFTWARE STAR



DATA: COMPANY REPORTS, GOLDMAN SACHS EST.

dent of worldwide operations at Oracle.

It's a battle that will extend around the globe. For example, SAP has recently beaten Oracle to market in Japan. That's only natural since one of SAP's big selling points is that its software, a comprehensive set of programs for accounting, manufacturing, and sales, has been geared toward multinationals from the start. SAP's start was in mainframes, where the company—launched in 1972 by five former IBM software engineers in Walldorf, near Heidelberg—came to dominate the European applications market. Now, SAP is pushing into the client-server networks that replace mainframes. Client-server applications, predicts Forrester Research

are expected to pass the \$1 billion mark in 1994.

That dwarfs the \$215 million Oracle generated in fiscal 1994 (ended June 30) from its Cooperative Applications line, which competes with R/3. Oracle, a \$2 billion database giant, sees client-server applications as a critical extension of its core business, and Lane predicts Oracle's applications revenues could hit \$500 million by 1996. And with offices and consultants around the globe, plus lots of cash, Oracle is a formidable rival. "It's going to be a battle between SAP and Oracle," says Clare M. Gillan, an analyst with market researcher IDC.

With the market growing so rapidly,

sions. Some top German executives still flinch when they hear that a salesperson can now earn more than they do—much as \$2 million a year.

Besier clearly likes to shake things up back in Walldorf. When he penciled \$2 million for advertising as part of the \$6 million 1993 budget for the U.S. launch of R/3, SAP's board balked. Besier spent it anyway—and turned in sales that were \$2 million above the company forecast. "I prefer to beg for forgiveness than for permission," says Besier. That attitude may come in handy as SAP pursues world markets.

*By Gail Edmondson in Walldorf, Germany*



## ENGINES THAT RUN ON WATER?

An inventor has patented a fuel that's half gasoline, half H<sub>2</sub>O

Rudolf W. Gunnerman has a tiger by the tail—the Exxon tiger. If the technology that the 66-year-old inventor has spent \$6 million and the past seven years developing lives to his claims, cars and trucks could one day be running on a fraction of the gasoline and diesel fuel they now use. Ditto for buses, planes, trains, and anything else powered by an internal-combustion engine—from lawn mowers to huge electrical generators.

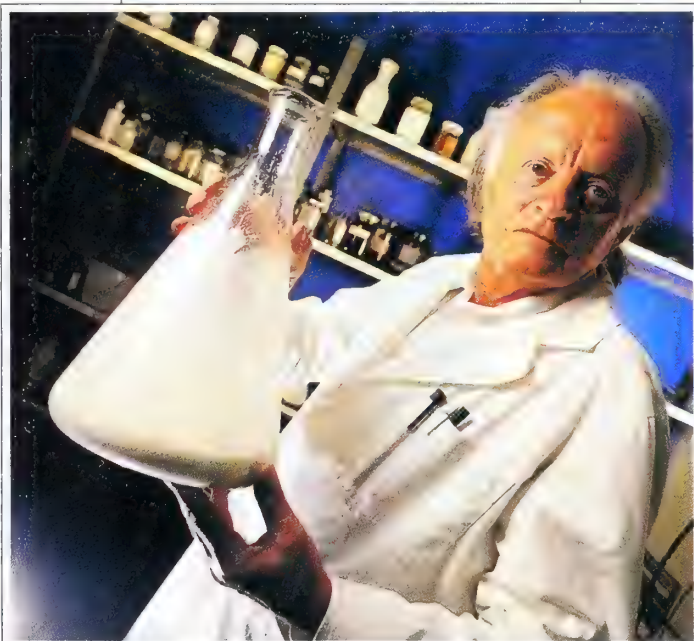
Gunnerman claims to have technology that enables engines to burn a mixture of half fuel, half water. Yes, water. What's more, he says, the mixture gets 40% better mileage from the gasoline it contains and emits significantly less pollution because engines run cooler. In particular, tailpipes emit virtually no nitrogen oxides—the principal source of smog. Sound crazy? Maybe, but Caterpillar Inc. is so intrigued that in early July it formed a joint venture with A-55 LP, Gunnerman's tiny, one-person company in Reno, Nev. A-55 is short for aqueous

fuel, the amount of water by weight in the patented fuels. But the key ingredient is 0.5% of a secret emulsifier that enables fuel and water to mix—and stay mixed. Gunnerman financed his work with royalties from other patents, especially those covering the making of pellets for woodstoves.

**NICKEL CATALYST.** Caterpillar won't discuss the terms of the deal, except to say it will contribute staff and resources to the new venture, called Advanced Fuels LLC. "It's certainly very exciting technology," says James E. Sibley, Cat's technical manager and acting general manager of the joint venture. "But a lot of work still needs to be done, and a lot of surprises can always crop up as you go to product development."

Why does the fuel result in better

mileage? Gunnerman believes the water gets broken down into hydrogen and oxygen, and the hydrogen contributes energy to the combustion process. That's because there is one additional trick in his patented process: A small piece of nickel must be attached to the crown



GUNNERMAN: DETRACTORS CLAIM HIS FUEL IS NOTHING NEW

of each piston or the top of the cylinder heads. The nickel seems to act as a catalyst in "dissociating" the water, says Gunnerman.

Hogwash, says David B. Kittelson, a mechanical engineering professor at the University of Minnesota. Researchers have been burning 50%-water fuels since the 1940s, and "there's this myth that you're burning the water." Actually, he says, the water just allows the engine to

The invention stood up well in recent tests: It powered a Reno city bus for five months

run hotter and not melt. World War II bombers wouldn't have been able to get off the runway without their water-injection turbochargers.

Still, Gunnerman's invention has done well in recent tests. Reno used it to power a city bus for five months. The Air Force put six vehicles through a 14-week obstacle course at its Elmendorf base in Alaska. And the Minnesota Transportation Dept. hosted an event last December featuring five vehicles that journeyed 2,000 miles from Reno.

**MILES TO GO.** In Reno, city bus No. 405 began making its daily runs with Gunnerman's blend on Oct. 5, 1993. It racked up 11,292 miles by Feb. 22, when the engine was removed and shipped to Caterpillar for study. Bruce Anderson, main-

tenance superintendent of Reno's Regional Transportation Commission, kept tabs on performance and found a 29% increase in mileage per gallon of diesel fuel—with no unusual problems.

In Minnesota, Gregory Felt, chief operations engineer for the state's Transportation Dept., admits he was "the biggest skeptic around." So he asked Gunnerman's team for a live demo: Mix up a fresh batch with local tap water and diesel fuel. When the blend was used to fire up a model 453 engine from Detroit Diesel Inc., "it had the cleanest exhaust I've ever seen coming out of a diesel," says Felt. "If it really does what it seems, this is big."

How big? "If this proves out, it could reduce the U.S.

trade deficit by almost half, by eliminating the need to import oil," says John D. Peters, who tracks emerging transportation technology for Minnesota.

Converting an existing gasoline engine to run A-55 fuel would cost less than \$500, Gunnerman predicts—including a new fuel-injection control chip that could be programmed to detect the presence or absence of water and adjust operations accordingly. That way, drivers could fill up with regular gasoline if they couldn't find A-55.

Gunnerman's next project: a fuel that would eliminate gasoline altogether. He calls it "X fuel." It's a mix of naphtha and water. Naphtha comes out of the process of refining oil earlier than gasoline, so it costs 50% less. It's enough to send the Exxon tiger into a tizzy.

By Otis Port in New York





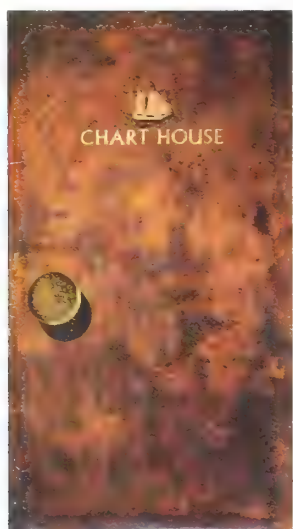
Visual Basic, sales have increased 128%.



Windows-based control system at one-fourth the cost of a typical configuration.



Microsoft SQL Server into an image-based billing system, dramatically improving productivity.



MyMenu.com, Inc. made changing menus faster and easier for this popular restaurant chain.



MDL Information Systems, Inc. and Microsoft Office provided productivity tools allowing research scientists to better analyze data.



This securities firm looked to Micro Modeling Associates and Microsoft Office to expedite the delivery of investment research to clients.



MTX International, Inc. and Stanford Business Systems joined this supermarket's accounting and point of sale system with Microsoft Access.



Platinum Software and Paradigm Technologies implemented a Windows NT-based



This law firm now spends less time on paperwork thanks to Quickstart Technologies' use of Windows NT-based

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## INFOBAHN WARRIOR

Why General Instrument could end up as a Highway heavyweight

**G**eneral Instrument Chairman Daniel F. Akerson is nothing if not pugnacious. Akerson, 45, boxed as an undergraduate at the Naval Academy. As president of MCI Communications Corp., he rammed through a long-stymied investment by British Telecommunications PLC. And despite his new job heading the world's largest cable-gear supplier, his family doesn't have cable service because he and his wife disliked what their kids were watching.

Akerson's toughness makes him a perfect match for General Instrument Corp., a company that is by turns admired, feared, and hated for its power in the cable-TV industry. In North America, the world's biggest cable market, GI has dominant market shares in everything from set-top boxes to coaxial cable. GI won plaudits for devising the first system for over-the-air transmission of digital TV—leapfrogging the best of Japan and Europe. But it earned the wrath of programmers such as Home Box Office Inc. when it was slow to patch holes in scrambling software, which allowed pirates with satellite dishes to watch billions of dollars' worth of programming free. Akerson admits "GI wasn't snow white," but says it eventually spent tens of millions of dollars to fix the problem.

So powerful is GI that the Justice Dept. has gathered evidence to consider an antitrust suit. Akerson says the probe is meritless and, he thinks, has "somewhat abated" lately. In fact, he wants to broaden General Instrument's influence further. He and GI President Richard S. Friedland believe GI is among a handful of companies perfectly positioned to profit from construction of the Information Superhighway. GI hopes to parlay its dominance in the analog world of cable-TV gear into the much bigger digital world to come—one including interactive TV and video games, home shopping, and computer communications. Where it lacks skills, GI is teaming up with such heavy hitters as Motorola, Intel, and Microsoft.

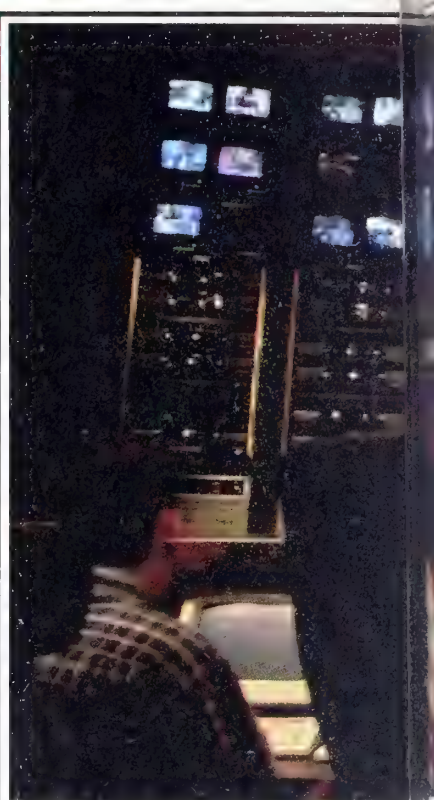
Boasts Akerson: "My goal is to be as big as Microsoft."

Big talk for a company barely more than a third Microsoft's size. But GI is certainly setting a torrid pace. On July 19, it reported that second-quarter earnings quadrupled to \$54 million on a sales increase of 63%, to \$509 million. Equitable Securities analyst Jeff L. Sadler predicts that GI's earnings will jump 68% this year, to \$191 million, on sales of \$1.97 billion, up 42%. Long-term debt has plummeted and the stock has quadrupled to about \$60 a share since 1992, when the investment banking firm Forstmann Little & Co. took GI public following a 1990 leveraged buyout.

**REAL PRODUCTS.** General Instrument finds itself in the right place at the right time: Cable-TV operators are busily upgrading their networks for more capacity and interactivity. And phone companies are hoping to crack the video market with networks that resemble those GI already supplies to cable operators. Whether these investments will pay off for buyers is an open question. But they're paying off now for GI. Says Salomon Brothers analyst Danielle Danese: "Everybody talks about their plans for the Information Highway. This is a real company selling real products today."



AKERSON: SECOND-QUARTER EARNINGS QUADRUPLED

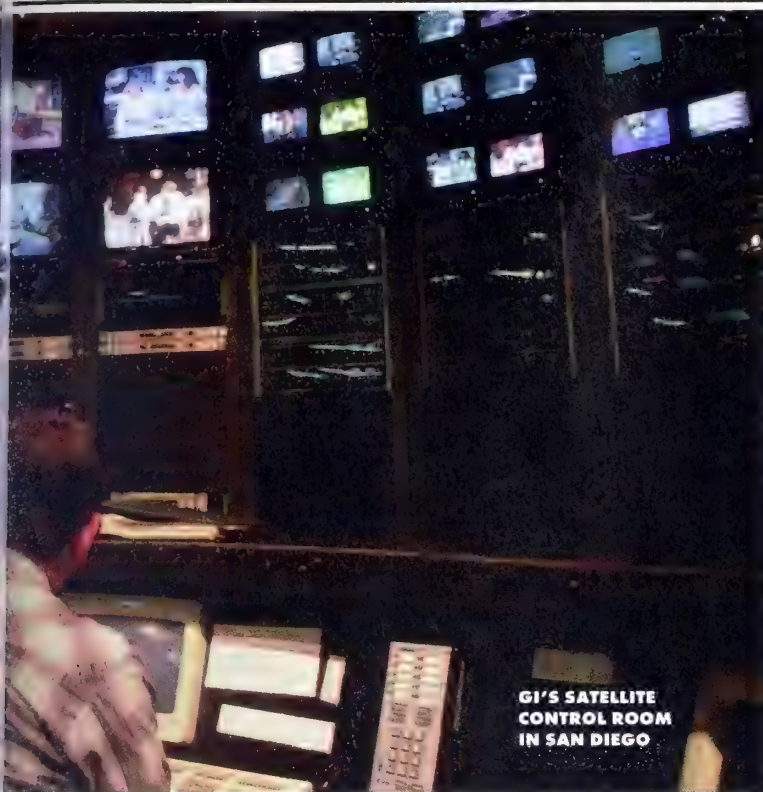


The next few years will determine whether Akerson and Friedland realize their ambitions—or if GI ends up as a niche player, merely supplying components to the general contractors of the I-way. GI should fare well with its traditional customers, cable operators. But local phone companies—whose capital spending is eight times that of cable operators—are still on the fence. GI faces competition from many of the leading names in electronics, including AT&T, IBM, Hewlett-Packard, Apple Computer, Silicon Graphics, Sun Microsystems, Philips Electronics, and cable-TV-gear rival Scientific-Atlanta.

Strong alliances could make the difference. With Microsoft Corp. and Intel Corp., GI is developing an interactive set-top box called LinX, due next year. LinX will use Intel's 80386 microchip and a Windows-like operating system from Microsoft. Customers will use it to fetch programs from a network server. Later, GI plans to use Microsoft's video server software, code-named Tiger, in cable systems for picture phone service and networked video games.

General Instrument's alliance with Motorola could mark its first foray into consumer electronics. The companies are co-designing a television nicknamed Joey that is upgradeable with a swap of circuit board. Joey could take heat off GI, which like other makers of converter boxes is under orders from the Federal





## A STRATEGY FOR GROWTH

With 1993 revenues of \$1.4 billion, General Instrument is the world's leading supplier of set-top boxes and signal-scrambling software for cable TV. Here's how it hopes to turn that niche into big profits on the Information Superhighway:

**FORM ALLIANCES** GI is working with such giants as Intel, Microsoft, and Motorola to insert its communications technology into Information Age products such as set-top "gateways" for shopping, games, and video on demand.

**GO DIGITAL** It can carry cable operators smoothly into the digital era because it already supplies them with analog gear. Old and new components will have to work together until the conversion to digital is complete.

**WORK FROM STRENGTH** It has nearly 100% of the U.S. market for satellite signal scrambling, and it hopes to use that base to increase its share of the next leg—scrambling over cable.

communications Commission to stop, by 1997, building boxes that override advanced functions of TV sets, such as picture-in-picture. With Joey, the set-top box would shrivel to a simple descrambler. All advanced capabilities would be a product—Joey—that's owned by the customer, not by the cable operator. Joey remains in the concept stage.

So far, these alliances are generating more publicity than profit: While GI is picking up big sales gains, it's only starting to penetrate the telecom market. In one big phone-company order, GI will work with system integrator AT&T on a new voice and data network for 9 million Bell Atlantic Corp. customers. S.G. Warburg & Co. analyst Yossy Benderly says the deal could contribute \$1 billion to revenues by the end of the decade. Meanwhile, GI's smaller rival, Scientific Atlanta, is chipping away with modest deals with Time Warner, US West, BellSouth, Ameritech, and MCI.

**ST-RATE SCRAMBLER.** If General Instrument does come out a winner, much of the credit will go to its expertise in the compression and scrambling of video signals. GI's DigiCipher system converts analog television into a digital stream and squeezes out 90% of the bits without noticeably degrading the picture. Then it scrambles the bits in an effort to thwart pirates. The result is a more secure system that can multiply tenfold the number of channels over a cable—giving cable operators the equivalent of free real estate.

GI has big plans for DigiCipher. It

wants to use it for end-to-end compression and security for video: from a programming source such as MTV, up to a satellite, down to a cable operator's "head end," and then via cable to a customer. GI already monopolizes satellite scrambling in North America with its analog product, VideoCipher. It wants to convert all VideoCipher customers to DigiCipher—and then get them to adopt DigiCipher for the next transmission leg as well, to the home. But GI isn't trying to push customers to adopt

**"My goal is to be as big as Microsoft," says Akerson. Big talk for a company just one-third that size**

its end-to-end solution by brandishing exclusive control of DigiCipher, a tactic that might run afoul of antitrust law. Rather, it is licensing the key technology to companies interested in making rival set-top boxes. Even Scientific Atlanta is in negotiations for a DigiCipher license.

Clearly, DigiCipher will never be the monopoly champion that VideoCipher was. Aside from GI's licensing practices, it already has competitors. The main one is MPEG 2, a compression technology that, unlike DigiCipher, was developed by industry consensus. And DigiCi-

pher II is not expected to be available in set-top boxes until early next year, more than a year behind schedule. Akerson blames the delay on having to attain compatibility with MPEG 2, on difficulties in circuit design, and on "feature creep"—new demands placed on designers.

**NEW MARKETS.** The coming digital video market should be big enough for GI to enjoy healthy growth, even with a slip or two. European and Asian countries are only now adopting cable TV. Revenue is growing three times as fast outside the U.S. as domestically, and Akerson believes more than 50% of GI's sales could be non-U.S. within five years, up from 25% today.

Don't expect GI to settle for riding the industry sales curve, however. That isn't Dan Akerson's style. Not at MCI, where he wrapped the deal for British Telecom to take a 25% stake: "Dan clearly grabbed responsibility," recalls his successor as MCI president, Gerald H. Taylor. Last August, Forstmann Little lured Akerson to Chicago by offering him GI's helm and a partnership stake in the lucrative investment bank. General Partner Theodore J. Forstmann says Akerson is doing "an untoppable job" and was instrumental in landing the Bell Atlantic deal.

The next Microsoft? Probably not. But GI has the positioning—and the pugnacity—to make a name for itself on the Information Highway.

*By Kevin Kelly, with Peter Coy, in Chicago*



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# QUALITY



## HOW TO MAKE IT PAY

**START** with an effective quality program. Companies that don't have the basics, such as process and inventory controls and other building blocks, will find a healthy return on quality elusive.

**CALCULATE** the current quality initiative. Cost of warranties, prevention, and more activities all count. Measure these against the return delivered by a product or service to the customer.

**W**hen the "total quality" mantra swept U.S. boardrooms in the 1980s, few companies responded with the fervor and dedication of Varian Associates Inc. The scientific-equipment maker put 1,000 of its managers through a four-day course on quality. The company's Silicon Valley headquarters buzzed with quality-speak. Talk of work teams and cycle times replaced discussion of electrons and X-rays. There was even a mascot, Koala T—a manager who wore a koala costume and roamed Varian's cafeteria handing out homilies about quality.

And it wasn't just buzzwords and bear suits. Varian went about virtually reinventing the way it did business—with what seemed to be stunning results. A unit that makes vacuum systems for computer clean rooms boosted on-time delivery from 42% to 92%. The radiation-equipment-service department ranked No. 1 in its industry for prompt customer visits. The semiconductor unit cut the time it took to put out new designs by 14 days. W. Edwards Deming

and J.M. Juran, the famous management consultants and leading prophets of quality, would have been proud.

But while Varian thought it was playing quality by the book, the final chapter didn't feature the happy ending the company expected. Obsessed with meeting production schedules, the staff in that vacuum-equipment unit didn't return customers' phone calls, and the operation ended up losing market share. Radiation-repair people were so rushed to meet deadlines that they left before explaining their work to customers. Sure, Varian could boast about quality. But in 1990, its sales grew by a paltry 3%, to \$1.3 billion. And Varian posted a \$4.1 million loss after a \$32 million profit in 1989. "All of the quality-based charts went up and to the right, but everything else went down," says Richard M. Levy, executive vice-president for quality.

Levy isn't the only one who's dismayed. Countless other managers have heeded the siren song of total quality management, or TQM, only to discover

that quality doesn't necessarily pay. At Johnson & Johnson, quality teams on several product lines criss-crossed the country, benchmarking against other companies, but costs skyrocketed. In 1990, Wallace Co. won the Malcolm Baldrige National Quality Award. Ten years later, the oil equipment company filed for Chapter 11 as the cost of quality programs soared and oil prices collapsed.

**RALLYING CRY.** Of course, the quest for quality doesn't always have unhappy results. Detroit, for instance, finally caught the quality wave in the 1980s, and it's hard not to shudder at the thought of how the Big Three would be faring today if they were still turning out Chevy Citations instead of Saturns. And much of the rest of U.S. industry would be locked out of the game in today's global economy without the quality strides of the past few years.

But at too many companies, it turns out, the push for quality can be as badly misguided as it is well-intended. It can be popular with managers and their



# QUALITY

**TERMINE** what key factors retain customers—what drives them away. Conduct detailed surveys. Track market changes, especially quality and product initiatives of competitors.

**FOCUS** on quality efforts most likely to improve customer satisfaction at a reasonable cost. Figure the link between each dollar spent on quality and its effect on customer retention and market share.

**ROLL OUT** successful programs after pilot-testing the most promising efforts and cutting the ones that don't have a big impact. Closely monitor results. Build word of mouth by publicizing success stories.

**IMPROVE** programs continually. Measure results against anticipated gains. Beware of the competition's initiative and don't hesitate to revamp programs accordingly. Quality never rests.

consultants, but as at Varian, it can devolve into a mechanistic exercise that moves meaningless to customers. And quality that means little to customers usually doesn't produce a payoff in improved sales, profits, or market share. It's wasted effort and expense.

That's why a growing number of companies and management thinkers are starting to refine the notion. Today's rallying cry: return on quality. Concepts such as better product designs and swift manufacturing aren't being rejected, but advocates of the new theory are abandoning the narrow statistical benchmarks worshiped by some TQM acolytes. Instead, managers are trying to make sure that the quality they offer is the quality their customers want. And they're starting to use sophisticated financial tools to ensure that quality programs have a payoff. Roland Rust, a Vanderbilt University professor of management and one of ROQ's chief apostles, says executives have to worry about only one thing: "If we're not going to make money out of it, we're not going to do it."

The ROQ revisionism is attracting a growing number of corporate devotees across a wide spectrum of industries. Banking giant NationsBank Corp., for example, now measures every improvement in service, from adding tellers to offering new mortgage products, in terms of added revenue. Telecommunications powerhouse GTE Corp. is looking for quality at reasonable costs. Even companies that were in the vanguard of the 1980s quality push are considering the benefits of ROQ. "We're trying to isolate quality improvements that just don't add any value to the service that is delivered to the customer," says Michael E. Reed, managing director of operations at Federal Express Corp.

For FedEx, a 1990 Baldrige recipient, that has meant rethinking its original quality goals. In its sorting operation, for example, FedEx stressed speed over accuracy. Workers met schedules, but the number of misdirected packages soared as they scrambled to meet deadlines. FedEx eventually fixed most errors, but redirecting each wayward

package cost it some \$50. Now, the Memphis-based shipper has eased the sorting crunch by investing \$100 million in new equipment that routes packages to various destinations.

ROQ is more than just a new twist on an old theme. Many companies believe that applying a bottom-line discipline to quality is crucial at a time when the economy is rebounding and competition is growing. AT&T CEO Robert E. Allen, for example, receives a quarterly report from each of the company's 53 business units that spells out quality improvements and their subsequent financial impact.

**RETURN THRESHOLD.** Everything from the installation of new technology to methods of improving billing accuracy is held up against an array of financial yardsticks, such as potential sales gains and return on capital. Based on its experience, AT&T has found that when customers perceive improved quality, it shows up in better financial results three months later. "This is the most important thing that AT&T has ever



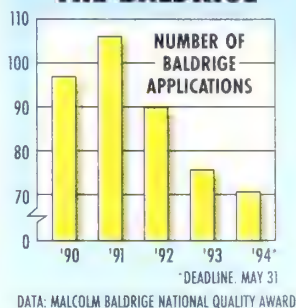
done," Allen told a meeting of top managers the day before his June board presentation.

To win approval from AT&T's top management these days, proponents of any new quality initiative must first demonstrate that the effort will yield at least a 30% drop in defects and a 10% return on investment. Ma Bell used those criteria last year to maintain its supremacy in the toll-free 800-number market. To reduce service outages—its customers' biggest complaint—AT&T mulled a vast modernization program. But it seemed unlikely that the staggering \$1 billion-plus project would net enough new customers to clear the 10% investment-return threshold. Instead, Ma Bell invested \$300 million in backup power equipment to guard against failures in its 800-number system. "It isn't the old 'Give me money and I'll fix it' stuff," says Philip M. Scanlan, a corporate quality officer. "We're taking the cost out of making our system better."

**CHASING PRIZES.** Of course, quality was always supposed to make bottom-line sense. In the Deming and Juran doctrines, empowered employees would make quicker and more market-based decisions. Faster and better manufacturing processes would lead to improved products and broader market share. That message was popularized by Deming in the 1950s, and it soon became the cornerstone of Japanese management theory. The quality theory emigrated to the U.S. in the 1980s as American companies tried to duplicate the Japanese miracle.

For some of them, including Motorola, Intel, Hewlett-Packard, and General Electric, excellence became the norm. But others among the legions who followed Deming came to confuse process with purpose.

## BACKING OFF THE BALDRIGE



ing the International Standards Organization, which sets European quality standards, became a paramount concern for some companies. Meanwhile, Baldrige wannabes often tripped and fell as they tried to complete an obstacle course of requirements that emphasizes process over proceeds. "There's been an insufficient focus on the aspect of quality improvements that will make the largest contribution to overall financial perfor-

Quality devotees grew obsessed with methodology—cost-cutting, defect reduction, quicker cycle times, continual improvement. Before too long, customer concerns seemed to fall by the wayside.

Quality became its own reward. Standards were more important than sales. And companies appeared more interested in chasing prizes than profits. Pleas-

mance," admits Curt W. Reimann, director of the Baldrige Quality Award.

The new focus on the relationship between quality and financial returns has its detractors. Critics say it's just a smokescreen behind which companies are cutting back on their quality effort. A healthier economy and rising sales may be prompting them to slack off the costly discipline of TQM. And some companies—Hewlett-Packard among them—argue it's a mistake to take bean-counter's view of something as fundamental as quality. Yes, HP makes decisions about quality based on sound business considerations. But that doesn't mean it takes out a calculator every time it launches a quality program. "Saying that this is a quality move and that is what it's worth is like saying, 'What's my left lung worth?'" says Richard Vitt, director of corporate quality. "Quality is intrinsic to our whole business."

**IRONING IT OUT.** To its advocates, ROQ is about getting companies back to something that's equally intrinsic to every one's business: customer focus. Instead of talking about attracting new customers with dazzling statistical displays of quality, it emphasizes customer attention. After all, serving more to existing customers is a cheaper way to build market share than luring business away from competitors. "Customers are an economic asset. They're not on the balance sheet, but they should be," says Claess Fornell, a University of Michigan professor who is a leading ROQ advocate. Extensive surveying, perhaps even inviting customers into design and production processes, helps companies identify the key factors that affect customer buying decisions.

One company that's looking closely at how and why customers choose to buy is Promus Co., the Memphis-based hotel and gaming company. When it wanted to lure more customers to its Hampton Inns chain, Promus decided to offer guaranteed refunds to any customers dissatisfied with their stays.



## WINNING ITS STRIPES

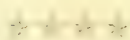
Zebra used return-on-quality tenets to make a low-end bar-code printer that didn't cannibalize its upscale line





## GOOD-BYE TO BUZZWORDS

Once obsessed with quality-speak and production deadlines, scientific-equipment maker Varian now takes the time to think through savvy, cost-effective solutions for customers



reason. Refunds totaled a mere \$1.1 million in 1993 for Hampton Inns. But best surveys showed that the policy is pretty persuasive. Promus reckons the program brought in an additional \$1 million in revenue for the Hampton Inn last year. An added bonus: higher employee morale. With everyone from

front-desk clerks empowered to grant refunds, employee satisfaction climbed rapidly. Turnover at the chain fell to 50% last year, from 117% three years ago.

The refund program also helped Promus identify guests' chief annoyances. One of the biggest complaints at its Embassy Suites Inc. chain was lack of irons and ironing boards. Promus had always staffed its hotels with service people who spent their entire time drying irons from room to room. But no amount of coaching or planning could move the irons fast enough to satisfy demand.

Then, Promus ran the numbers. At a cost of roughly \$80, the chain could put a board and iron in every Embassy Suites room. By depreciating the expense over four years, the cost could average some \$20

a room—a mere \$475,000 per year on the expense side of the ledger. "We have literally no problems now from an area that was one of the largest complaint generators," says Mark C. Wells, Promus' senior vice-president for marketing.

Listening to customers is the easy part. Doing what they want without

spending into oblivion can be difficult. After its dispiriting experiences with TQM, Varian has focused on finding less expensive ways to please customers and boost quality. When customers complained about the long time that was needed to set up its radiology equipment at hospitals, the company didn't

just send out an army of installers, as it would have in the old days. Varian took its time identifying several hundred possible solutions, ranging from the way it shipped products to how they were installed.

**BONDING.** In the end, Varian changed many of its procedures. For example, it decided to ship cables in plastic bags rather than the "popcorn" filler it had been using. That saved 30 minutes of cleanup time. The company also redesigned key parts to make them fit together more easily. Varian's customers were delighted. The changes saved 95 hours in setup time, worth as much as \$50,000 per order to hospitals. Varian also saved \$1.8 million a year. "Everything we do, we do because it makes good business sense," says Levy.

ROQ also means that

## HOW COMPANIES ARE RETHINKING QUALITY

*A growing number of companies are focusing their efforts to improve quality on measures that produce tangible customer benefits while lowering costs or increasing sales. Among them:*

**AT&T** Telecommunications giant measures all quality programs in terms of financial returns. Demands at least 10% return on quality investments.

**UPS** Instead of stressing prompt delivery at any cost, the company is giving drivers free time to talk with customers. The hand-holding improves customer relations and helps develop sales leads. UPS figures the drivers could produce millions in additional sales.

**FEDERAL EXPRESS** Rather than just pushing workers to meet strict package-sorting goals, FedEx is investing in sorting equipment. The company hopes to cut down on misdirected packages, which can cost it \$50 a piece.

**GTE** After setting up program to encourage questions and suggestions, GTE found customers who called and complained were also more likely to drop cellular service. GTE upgraded system to stop complaints in the first place.

**VARIAN ASSOCIATES** The company studied hundreds of different methods to reduce the time it takes to set up its radiology equipment in hospitals. One solution: a different way to package cable equipment that both saved Varian money and speeded up unpacking.

**ZEBRA TECHNOLOGIES** Introduced a new low-end printer to keep customers happy. But company designed the \$1,495 equipment so that it couldn't be upgraded and compete with its high-end product, which sells for \$1,995.

DATA. BUSINESS WEEK



companies have to learn when not to listen to customers. GTE spent \$2 million in 1989 to launch a "customer bonding" program designed to respond to customers who called with complaints or questions about cellular-phone service. But the bonding program raised unrealistic expectations among customers, who suggested that GTE offer everything from on-line yellow pages to psychic hot lines. And a survey found that customers were still likely to cancel after calling to complain. After studying its cellular system, GTE decided that what it really needed to do was improve its switch-

end \$1,995 model, which is faster and can print on different kinds of materials. The result: The new Stripes printer helped Zebra's sales climb 47% last year, and margins on the new printer match those from Zebra's original line.

Rethinking quality can force some companies to abandon cherished beliefs. United Parcel Service Inc., for example, had always assumed that on-time delivery was the paramount concern of its customers. Everything else came second. Before long, UPS's definition of quality centered almost exclusively on the results of time-and-motion studies.

contact any of them had with the company. If drivers were less harried and more willing to chat, customers could get some practical advice on shipping. "We've discovered that the highest-return element we have is our drivers," says Lawrence E. Farrel, UPS's service-quality manager. "Now, we're viewing drivers as more of an asset than a cost."

In a sharp departure, the company is encouraging its 62,000 delivery drivers to get out of their trucks and visit customers along with salespeople. It allows drivers an additional 30 minutes a day to spend at their discretion.



## UPS NOW RINGS TWICE

Its customers want more face-to-face contact with drivers. The delivery giant is also looking at package design to reduce breakage. This test determines how much weight a dropped box can handle

strengthen ties with customers and perhaps boost in new sales. Delivery quotas are important, but now, UPS is willing to add extra drivers so that drivers can be freed to spend time with customers. As an added incentive, UPS is paying drivers a small commission for any sales leads they generate. The program has cost UPS \$4.2 million in driver time so far this year but has generated "tens of millions of dollars" in revenue, says Farrel.

**NO PROOF.** It may be while before companies get it right. ROQ measurements can be mind-bogglingly inexact. Among the uncertainties: How much of a return is enough? How fast can a company expect a pay-

ing to stop complaints in the first place.

Proponents argue that ROQ tenets can be applied across a company's operations, from personnel policies to product development. Consider tiny Zebra Technologies Corp., a Vernon Hills (Ill.) maker of bar-code printers. Zebra had developed a reputation among customers as a manufacturer of high-quality, top-of-the-line printers. But the company also saw a lot of sales potential in the low-end portion of the marketplace. A low-priced, low-frills printer was a cinch to make. But such a model would pose two risks: It might tarnish Zebra's image of quality with its customers. Worse, it might cannibalize the existing product line.

**CHERISHED BELIEFS.** The solution? Zebra came up with a no-frills version with a plastic housing that pleased its clients. But it didn't give away the store: It made sure that the stripped-down \$1,495 printer couldn't be upgraded, to ensure that it wouldn't compete with its high-

Knowing the average time it took elevator doors to open on a certain city block and figuring how long it took people to answer their doorbells were critical parts of the quality equation. So was pushing drivers to meet exacting schedules. UPS even shaved the corners off delivery-van seats so drivers could slip out of their trucks more easily. All next-day packages had to be delivered the next day by 10:30 in the morning.

The problem was, UPS wasn't asking its customers the right questions. Its surveys barraged clients with queries about whether they were pleased with UPS's delivery time and whether they thought the company could be speedier. When UPS recently began asking broader questions about how it could improve service, it discovered that clients weren't as obsessed with on-time delivery as previously thought.

The biggest surprise to UPS management: Customers wanted more interaction with drivers—the only face-to-face

off? "You build evidence, but you can't claim proof," says Eugene Nelson, director of quality-education measurement at Dartmouth-Hitchcock Medical Center in Lebanon, N.H. And the new quality revolution depends heavily on customer surveys, which, as we learned, can be misleading if they're not carefully designed and executed.

And there isn't a lot of help out there. Major consulting firms, such as Andersen Consulting, Booz Allen & Hamilton, and Ernst & Young, still devote into their efforts to "reengineer" Corporate America, are just now turning some attention to ROQ. Many management experts believe companies have to rethink their basic operations before addressing return on quality. "If you initiate a quality program with people who are obsolete, you make them very good obsolete people," says Andersen associate partner Leonid Lipchin.

Still, some management thinkers are building thriving businesses as they



lead the ROQ gospel. Michigan professor Fornell runs an Ann Arbor consulting firm, Anjoy QSC, that boasts 60 full-time consultants, offices in four countries, and 25 multinational clients that include UPS, Oldsmobile, and IBM Corp. In October, Fornell, the University of Michigan, and the American Society for Quality Control, an association of corporate quality managers, will start publishing a Customer Satisfaction Index that will measure quality

improvements in 40 different industries against returns on investment. Fornell has designed a similar system for the government of Sweden, which uses it as an economic indicator. Meanwhile, Vanderbilt's Rust has formed his own consulting firm, Strategic Profit Systems, and is marketing ROQ software that forecasts long-term economic returns from quality improvements.

That eye on financial results keeps quality programs from running amok,

ROQ proponents argue. And for the first time since Deming launched the quality imperative, companies can start developing precise tools to measure results. With a well-implemented return-on-quality program, they can get more than a sense of a job well done and the opportunity to spout lofty rhetoric about valuing their customers. They can get the kind of results that they can take to the bank.

*By David Greising in Atlanta, with bureau reports*

## SELLING A BRIGHT IDEA—ALONG WITH THE KILOWATTS

**B**y the time Florida Power & Light Co. became the first U.S. company to capture Japan's prestigious W.E. Deming Prize in 1989, the Miami-based utility had become a kind of mecca for Corporate America's quality mavens. Visitors marveled at FPL's quality department, numbering 15 staffers. And they were awestruck by the utility's 1,800 quality-improvement teams. "We had checkers checking checkers in everything we did," says J. Thomas Petillo, then an executive in the quality office.

In the end, however, FPL kept better tabs on quality than it did on its basic business. The utility's managers, preoccupied with such quality issues as timely billing and preventing downed power lines, woke up too late to the population explosion in southern Florida and the sudden surge in demand for power. FPL had to buy electricity from nearby utilities. It even had to initiate rolling brownouts to conserve power. The year it won the Deming, FPL's profits fell 8%, to \$412 million, even though its revenues climbed 13%, to \$5.3 billion.

**ALKING CURE.** With results like that, many companies would have turned out the lights on quality programs. Not FPL. Instead, the utility revamped its entire quality approach—this time with an emphasis on cost reduction. Nowadays, FPL's bottom line is much brighter. Its profits rose 23% last year, to \$572.4 million. And building on its reputation as a Deming winner, FPL has launched a thriving return-on-quality consulting business. FPL's Qualtec Quality Ser-

vices Inc. unit has 52 consultants, annual billings of more than \$13 million, and a list of 100 clients worldwide, from U.S. West Inc. to Britain's Nuclear Electric PLC.

Qualtec's approach is straightforward. First, it tries to persuade managers to throw out their old views of quality. The consultants break up management—from top executives through midlevel managers—into groups to talk about quality and how it should be used only as a means to produce healthier results. The message is spread through teams made up of managers and blue-collar workers. Then,

gluing out 45 processes that were key to keeping American President's ships running smoothly. Of those, Webb figured that 25, including loading cargo and meeting schedules, were critical to customers—and therefore likely candidates for quality improvements. Since then, Webb has recommended a number of measures, such as streamlining paperwork to reduce the time it takes customs officials to clear cargo.

**"TURBO TEAMS."** Not all of Qualtec's consultants have time for cruises. As more companies look for tangible payoffs from quality, they are also demanding speedier results. "Twelve to

18 months? Surely you can do better than that" is the common refrain from clients, says Petillo, now Qualtec's president. In response, Qualtec has formed "turbo teams" of consultants and managers to develop quality programs in a matter of weeks, not months. Gauging the financial impact of quality improvements is still a challenge. To help its clients, Qualtec is developing new computer software to measure the cost of quality against projected financial results, such as sales and return on capital.

As for the old Deming process that FPL once championed, Petillo thinks it still has merits. But even the Japanese quality devotees he sees these days are no longer blind to cost. Japan's weakened economy has seen to that. "Before, the Japanese wouldn't talk about cost," says Petillo. "Now they understand." It's a revelation that Qualtec is helping to spread.

*By David Greising in Atlanta*



**OLD SALT:** QUALTEC'S WEBB WENT TO SEA TO SPOT A SHIPPER'S PROBLEMS

with everyone in agreement on how to define quality, Qualtec does a top-to-bottom review of the way a company operates, identifying potential quality improvements that could yield financial benefits.

At American President Cos., a shipping company based in Oakland, Calif., Qualtec consultant Joe L. Webb made three transpacific voyages before sin-



## THEY SAID, HE SAID AT KIDDER PEABODY

The firm's report is expected to say Joseph Jett acted on his own



**Jett is telling the feds  
that his bosses  
directed his trades**

with his account say he claims that the main purpose of his trades—which involved “stripping” Treasury bonds into separate interest and principal payments, doing “forward” trades of the strips, and then “reconstituting” those strips back into bonds—was to reduce the assets on Kidder’s bloated balance sheet to comply with limits mandated by GE. These trades, though, depleted his inventory of Treasury bonds. Jett is saying that he then engaged in a series of “profit-neutral” trades to recover his inventory. Jett

is alleging that the elaborate scheme was invented by fixed income chief Edward Cerullo. The U.S. Attorney’s office had no comment.

**“PREPOSTEROUS.”** Kidder disparages Jett’s version. “The notion that Mr. Jett engaged in his forward strip and recon trades for the good of the firm is preposterous,” says John M. Liftin, Kidder Peabody’s general counsel. Liftin says the forward trades were done “solely to create the appearance of profit for Mr. Jett’s benefit.”

Cerullo also strongly rebuts Jett’s allegations. “To think I went to Joe Jett and said this is how you do it [shrink the balance sheet]—absolutely, positively not,” says Cerullo.

Jett has refused to talk to Lynch, says George Sard, Jett’s spokesman. Lynch is representing Kidder in salary arbitration against him.

But the Lynch report will undoubtedly carry far more weight than Jett’s

recollections. Lynch has Kidder’s trading records, not to mention exhaustive testimony, to back up his findings. And even if Lynch is being paid by Kidder, his sterling reputation is on the line (he Jett, in contrast, does not even have his red book, the handwritten record of the trades in his government-bond trading area, say sources. Further, Jett is a loner who appears to have few allies to corroborate his story.

Still, while there are some serious flaws in Jett’s story, which has not been told in detail before now, in some respects it seems plausible and jibes with some comments from Kidder executives. Kidder, for instance, acknowledges that it “sometimes takes steps to bring the size of its balance sheet into line with management’s view of appropriate levels.” Kidder says this is “perfectly legitimate.”

Jett’s account, say people who have talked to him, begins a year ago. Before the end of the third quarter of 1993 he says, Cerullo came up with a complex way to shrink assets by reconstituting Jett’s inventory of strips into

### GARY LYNCH— ‘JUST THE FACTS MA’AM’

**G**ary G. Lynch epitomizes the person you’d expect to be bringing some of the biggest, high-profile scandals on Wall Street, times compared to *Dragnet*’s Joe Lynch is widely regarded as a “just the facts” kind of guy. His intensity helped bring down such flamboyant characters as Ivan F. Boesky and Michael Milken in the 1980s, verges on the calm. Yet Lynch, a partner at tony New York-based Davis Polk & Wardwell, soft drive with a low-key, unflappable, and would say, plain-vanilla style. He is collecting fountain pens. “It’s something I can collect and use at the same time,” the 44-year-old former chief of enforcement at the Securities & Exchange Commission says.

It is this practicality that led Kidder Peabody & Co. to hire Lynch in April to the bottom of the firm’s government trading scandal. With an unlimited budget, Lynch has been combing through documents and interviewing dozens of current and former Kidder employees to find out whether Joseph Jett allegedly created the scandal and how his scheme apparently went undetected by his superiors. “It’s

**T**he Kidder, Peabody & Co. trading scandal has not always been easy to follow. Yet amid the welter of charges, countercharges, forced resignations and general trauma, two alternate versions of reality have been emerging. Kidder claims that Kidder Treasury bond trader Joseph Jett, unbeknownst to superiors, conducted a series of phantom trades that caused Kidder parent General Electric Co. to report a \$210 million loss. Jett claims that his trading was directed by senior executives.

Now, the conflict seems to be coming to a head. Kidder’s internal investigation of the fiasco by attorney Gary G. Lynch is due to be released in the first week of August. His conclusion is expected to support Kidder’s position. Lynch declined comment.

Jett, meanwhile, has been telling his side of the story to the office of the U.S. Attorney for the Southern District of New York. People who are familiar



ids. Because of the peculiarity of Kidder's accounting system, sources say, but \$20 billion in strip assets were converted to \$5 billion in bond assets through recon trades. That's because the principal and future interest payments of strips had to be accounted for on the balance sheet while only principal payments had to be accounted for in valuing bonds.

But that left Jett with a problem. To do business with customers who buy strips, he needed to get his strip inventory back. This is why in Jett's account was allowed by superiors to do a second series of trades. One trade involved selling strips forward, or for future delivery. This converted Jett's \$5 billion inventory of bonds back into his \$5 billion in strip inventory. These trades generated paper losses. But these losses were offset. Jett at the same time moved forward a number of recon trades, which generated paper profits. Although the scheme worked for the third quarter of 1993, according to Jett's account, troubles arose during the next two quarters. Cerullo asked Jett to reduce his strip inventory by about \$15 billion to avoid asking the highly profitable mortgage-backed securities opera-



## Cerullo denies masterminding Jett's moves

get his inventory back. Kidder, according to Jett's account, worried that that would cause the balance sheet to increase again during the quarter. Jett, thus, had to keep extending, or not settling, both his forward strip and forward recon positions.

**SCAPEGOAT?** Then, disaster struck at the end of the first quarter, Jett is saying. Sparked by a big hike in interest rates in early February, Kidder started to have trouble financing its huge mortgage inventory. At the same time, Kidder was hit by losses in the collapse of Askin Capital Management, a customer of Kidder's. The firm was so desperate to shift assets off the balance sheet before the quarter's end, according to Jett's story, that the back office staff had to come in to Kidder's offices over the weekend. The staff, though, was unable to enter trades that were done in the first quar-

tion to liquidate assets. Cerullo also told Jett that Kidder was starting negotiations with foreign banks for a large loan, so Jett would have to reduce assets for an extended period, sources say. Reducing assets would increase Kidder's return on assets, which was a key barometer of financial health to the banks.

In January, though, Jett could not

losses in the collapse of Askin Capital Management, a customer of Kidder's. The firm was so desperate to shift assets off the balance sheet before the quarter's end, according to Jett's story, that the back office staff had to come in to Kidder's offices over the weekend. The staff, though, was unable to enter trades that were done in the first quar-

to Kidder Peabody that the facts at, for better or worse," says Kidder's General Counsel John M. Liftin, noting the inquiry is costing Kidder \$10 million dollars. "Gary is very high, very intense, and demands full attention from everybody. He controls the investigation."

Lynch declines to discuss his probe. His internal report is released in August. But whatever it says, with Kidder has acquired a degree of notoriety that will be critical in deciding regulators and prosecutors

about whether to charge the firm or its management with wrongdoing. "When he thinks there's a problem, you can pretty much take it to the bank," says former SEC Commissioner Joseph A. Grundfest.

Lynch's judgment is deemed sufficiently solid that he is up to his suspenders in troubled Wall Street clients. Aside from Kidder, Lynch is juggling work for several other firms—including Prudential Securities, Merrill Lynch, and Nomura—battling allegations of securities law violations. In addition, Lynch handles matters for Morgan Stanley & Co. and Donaldson, Lufkin & Jenrette Securities Corp.

**NO REGRETS.** Lynch's ubiquitousness stems also from his 13 years with the SEC—the last four as enforcement chief. During that time, Lynch honed his skills as a first-rate gumshoe, unraveling elaborate financial plots at firms such as now-defunct Drexel Burnham Lambert Inc. He helped craft groundbreaking agreements for information-swapping with foreign law enforcers. And Lynch forged ties with influential lawyers, prosecutors, and corporate officials. "He's clearly well-connect-

ed," says New York defense lawyer Andrew J. Levander.

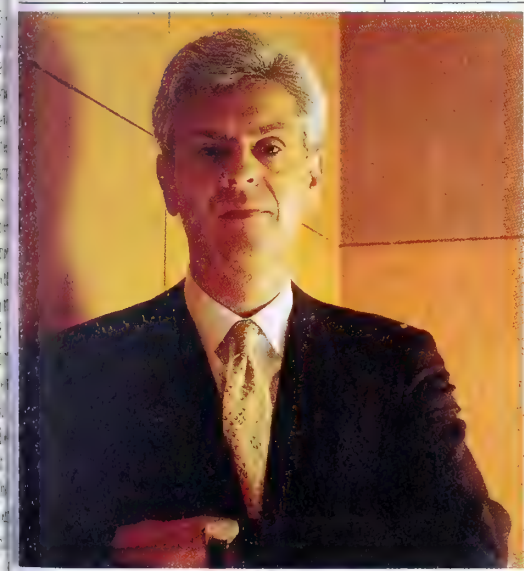
Like others before him, Lynch now represents the same people and institutions he once pursued while in government. He says that he has had no regrets about his move in 1989 to a cushy corner office at Davis Polk—leaving behind a government salary for one well into the six figures. "I actually think I have a very ethical client base, so I don't have a problem," says Lynch.

But some lawyers suggest that the spiderlike 6-foot, 1-inch Lynch may not be as adept in the role of corporate counsel as he was as law enforcer. These critics point to the \$330 million settlement Lynch helped negotiate for Prudential Securities Inc. last October. The settlement isn't capped, meaning that Prudential must fund it as needed indefinitely; the statute of limitations was waived, so investors who allege they were ripped off many years ago can bring action against the firm; and Prudential could still face possible criminal charges.

Lynch and other lawyers who worked on the deal defend it, noting that not only did it put to rest SEC allegations of fraud but also future actions in all 50 states. "You do what you have to do," says Lynch. "A settlement had to be reached, and these were the best terms we could arrive at."

Sounds a lot like Joe Friday.

By Linda Himmelstein in New York



IN DEMAND WITH TROUBLED WALL STREET FIRMS



ter in the second quarter, which, Jett is saying, put Kidder in violation of the Security & Exchange Commission's net capital rules. Both Kidder and the SEC deny Kidder was in violation.

Jett is saying that the firm decided to pin the huge losses suffered by the highly visible mortgage department on him. Thus, he was forced to liquidate many of his forward recon positions, which created \$100 million in losses.

There is plenty of room for skepticism of Jett's account. Four accounting

experts interviewed by BUSINESS WEEK say they doubt important aspects of Jett's account. If Jett's version was accurate, they say, Kidder would be guilty of using questionable, and, in some cases, inappropriate accounting procedures. Jett's defense "sounds like total double talk," says Donald J. Kirk, an accounting professor at Columbia University's business school.

Specifically, the experts doubt Jett's assertion that Kidder's accounting system could have allowed such a huge dis-

crepancy between how bonds and strips are accounted for. They say it is highly improper, in accounting for strips, to include on the balance sheet the entire future stream of interest payment. "It's total baloney," says the chief accountant of a Wall Street firm.

For all its possible defects, Jett's story is certainly intriguing. The big question now is whether the Feds will buy it.

*By Leah Nathans Spiro, with Linz Himmelstein in New York and Michael Schroeder in Washington*

## BROKERAGES

# WERE THERE BLIND SPOTS IN NOMURA'S OVERSIGHT?

The NYSE asks whether the firm adequately supervised a trader

**M**ax C. Chapman Jr. and Edward A. Cerullo, who are close pals, have a lot more in common these days than being former senior executives at Kidder, Peabody & Co. Cerullo, Kidder's fixed-income chief and Chapman's protégé during the 1980s, resigned under pressure on July 22 in the wake of Kidder's trading scandal. Chapman, chief executive of Nomura Securities International Inc., is also under growing pressure from his firm's Japanese owners (BW—May 30).

Now his troubles may be intensifying. Nomura and possibly Chapman himself may be hit by the New York Stock Exchange with a failure-to-supervise charge, according to several sources with close knowledge of the situation. The NYSE is investigating whether Nomura failed to adequately supervise a trader by permitting the firm to violate net capital rules, sources say. These are Securities & Exchange Commission rules that require securities firms to maintain minimum levels of capital as reserves against possible losses.

**DEPOSITION DERBY.** The Big Board declined comment. Nomura, which has hired Gary G. Lynch, a partner at Davis, Polk & Wardwell, to handle the matter (page 61), says the NYSE "is inquiring into the regulatory interpretation and characterization of certain proprietary trades that ceased over a year ago." Nomura spokesman P. J. Johnson adds that it has



CHAPMAN'S CONTRACT WAS EXTENDED—OR WAS IT?

more than \$400 million in excess net regulatory capital and believes "supervision was adequate at all times."

Chapman faces additional questions about his employment status. Nomura told BUSINESS WEEK for its May story that the firm had given Chapman a three-year extension of his contract, which was to expire in September. Nomura announced the extension to employees on May 19. In fact, say several sources, his contract was not renewed. Nomura declined comment.

The NYSE investigation, according to these sources, centers around a Thai trader, Chaiyarn Iiamsuri, a 17-year No-

mura veteran. To date, the NYSE has taken over a dozen depositions on the matter, including one from Chapman. Iiamsuri couldn't be reached for comment.

During the fiscal year ending March 1993, say the sources, Iiamsuri did a series of highly profitable trades totaling about \$225 million. Sources give the following account. Nomura essentially loaned money to Mexican dealers who put up Mexican securities as collateral. But the trades were structured as "buy-sellbacks," which are essentially repurchase agreements or repurchases whereby Nomura agreed to buy the securities and then sell them back to the dealers at a specified time period at a markup. The trades were profitable because Nomura's cost of funds was much lower than the high yield the firm received from the Mexican securities.

**REAL REPOS?** There were just two problems, sources say. First, Federal Reserve regulations at the time didn't allow firms to lend against Mexican debt. And NYSE rules required a firm doing a repo to reserve capital equal to the value of the trade. That, however, would have depleted Nomura's capital so much that the firm would have been in net capital violation.

In July, 1992, Nomura's compliance staff questioned the trades with Chapman in a meeting in his office. The compliance staff raised the issue of whether the buy-sellbacks were really repos. But no action was taken. It wasn't until the fall of 1992 that the NYSE determined in its routine examination that these trades were really repos and gave notice to the SEC that Nomura was in capital deficiency, sources say.

One thing seems sure about this chain of events: negotiations about renewing Chapman's contract will be lively.

*By Leah Nathans Spiro, with Linz Himmelstein, in New York*



# BULLS ON THE RUNWAY TART TO BELLOW

g investors see a "classic turnaround" in the airline industry

n Wall Street's lingo, airline stocks are "early cyclical"—they're bought at the start of an economic expansion. That's because once business picks up, so do air travel, profits, and ultimately, the prices of airline stocks. Yet though the expansion is 40 months old, stocks are still on the ground, hobbled by overcapacity, high costs, fare wars, and of course, red ink. Most of large U.S. carriers' shares sell for less today than they did in early 1991.

But at long last, many analysts and portfolio managers believe that the stocks will soon take off. That's because the airlines are starting to cut deals with labor unions to lower compensation and raise productivity. They're also scrapping unprofitable routes and trimming their fleets. And though the fare wars are by no means over, they're more restrained than just a few years ago. "It's a classic turnaround," says Sharon Fay, senior research analyst at Sanford C. Bernstein & Co. "Demand is growing as supply is shrinking and costs are coming down."

**LOW STARTERS.** Even more important, there's mounting bottom-line evidence of the turnaround. In recent weeks, both Delta Corp., parent of United Airlines, and AMR Corp., parent of American Airlines, the two largest U.S. carriers, surprised Wall Street by posting strong second-quarter earnings. So did Northwest Airlines Inc., the No. 4 carrier, which went public last year to unravel the 1989 leveraged buyout that nearly bankrupted the company. Even industry laggard USAir Inc. showed an 18% gain in operating profits. Says analyst Michael W. Derchin of NatWest Securities Corp.: "The second quarter should be the airlines' best in five years, and the third one looks pretty strong as well."

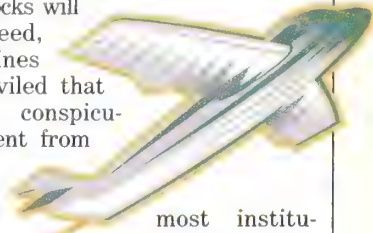
For all the good news, the stocks aren't moving up quite yet. "One good quarter isn't enough," says Thomas M. Freese, president of Palm Beach In-

vestment Advisers Inc., who, like many institutional investors, remains skeptical of the airlines. The only flier to take off was UAL, which on July 12 voted to put 55% of its stock into an employee stock ownership plan in exchange for a 14% wage-and-benefit cut. Since then, shares have climbed 14%.

United's labor accord sets a pattern the others will have to follow, especially to compete against lower-

and travel-agent commissions, according to analyst Tim Pettee of Alliance Capital Management. The airlines don't have any control over fuel—15% of operating expenses—and that always makes the stocks somewhat risky.

But the airlines' advocates say the risk is worth taking: The stocks have underperformed the market for so long that once the turnaround story catches on, the stocks will soar. Indeed, the airlines are so reviled that they are conspicuously absent from



## AIRLINE PROFITS ARE GAINING ALTITUDE

| Stock       | Price | 52-week |     | Earnings per share |            |            |
|-------------|-------|---------|-----|--------------------|------------|------------|
|             |       | High    | Low | Last 12 mos.       | 1994(est.) | 1995(est.) |
| AMR         | 57¾   | 72¾     | 52½ | \$-0.57            | \$4.05     | \$6.31     |
| CONTINENTAL | 15¾   | 30¾     | 11¼ | -4.47*             | -4.61      | 2.31       |
| DELTA       | 47½   | 61½     | 39½ | -5.22*             | 3.91**     | 5.73***    |
| NORTHWEST   | 17¾   | 18      | 11½ | 0.09               | 1.54       | 2.94       |
| SOUTHWEST   | 27    | 39      | 24½ | 1.27               | 1.48       | 1.88       |
| UAL         | 99    | 105½    | 77¾ | 2.41               | 5.49       | 9.43       |
| USAIR       | 6¾    | 17½     | 6½  | -9.35              | -8.05      | -1.53      |

\*Last 12 months through March, 1994    \*\*Fiscal year ending June, 1995    \*\*\*Fiscal year ending June, 1996

DATA: BRIDGE INFORMATION SYSTEMS, BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH, NELSON PUBLICATIONS, FIRST CALL

cost operations such as Southwest Airlines and startups such as ValuJet and Kiwi International. American, Delta, and USAir are seeking new labor contracts, and the betting is they'll get them. "Either labor negotiates now or negotiates when the airline is at death's door," says analyst Rose Ann Tortora of Donaldson, Lufkin & Jenrette Securities Corp.

There'll be no enduring airline revival unless management gets labor's help. Wages and benefits amount to some 30% of airline operating expenses, vs. 10% each for maintenance, landing rights,

United and American surprised Wall Street by posting strong second-quarter earnings

most institutional portfolios.

Much of the ownership is concentrated in a handful of bottom-fishers. Alliance Capital owned as much as 17% of UAL before the ESOP—a figure now cut in half—and owns 7% each of Southwest and USAir. Bernstein holds 8% of Delta Air Lines Inc. Capital Research & Management Co. controls 5.5% of AMR. These shareholders are not likely to bolt soon. Bernstein's Fay says the firm is only at the breakeven point on its airline investments and is expecting a "pronounced recovery" in the stocks.

**BIG MOVES.** Airline watchers are generally recommending the Big Three: UAL, AMR, and Delta.

Looking toward 1995, they're forecasting a 56% gain for AMR and a snazzy 72% for UAL. Some are saying nice things about Northwest, and most are still waiting for USAir and Continental to turn profitable. Ironically, Southwest, the one airline to make money for investors in the 1990s—up 200% over the past three years—is now losing some of its allure. The reason: The low-cost, short-haul carrier is losing its uniqueness as it moves into larger markets and is challenged by the majors. The analysts still like Southwest, but they believe that the Big Three will fly higher.

Even diehard airline bulls go into these stocks with an idea of selling when earnings start to sputter. But before that happens, investors can make a bundle. "Airlines have two really great years every decade," says Lehman Brothers Inc.'s Helane Becker. "And we've just started one of them."

By Jeffrey M. Laderman in New York

RAY VELAZQUEZ



# 'THE BANKING INDUSTRY'S BEST-KEPT SECRET'

Technoid William Zuendt is steering Wells Fargo into the future

**T**exas native Carl E. Reichardt hammed it up in his usual good-ol'-boy style at the July 19 press conference announcing his retirement from Wells Fargo & Co. "Paul, he's quieter and smarter than I am," the chairman and chief executive officer drawled, grinning at the bland-looking, bespectacled man to his right, Paul Hazen, who will replace him on Jan. 1. "I intend to second-guess Paul every chance I get. Haw haw haw haw haw."

Then Reichardt turned to the serious-looking, blue-eyed man to his left, who could be equally important to the bank's future. "Where technology is concerned, I've got Billy Zuendt, here," Reichardt said, a thick finger indicating Hazen's replacement as president and chief operating officer. "He is one of the few presidents of a major bank that is current in technology."

**SELF SERVICE.** William F. Zuendt—only the boss calls him Billy—has worked at Wells for 21 years, leading the bank's technology operations since he joined in 1973 at the age of 27. Both Zuendt and Hazen operated in relative obscurity under the charismatic Reichardt. But given his promotion, Zuendt will now be closely watched. Thomas K. Brown, an analyst at Donaldson, Lufkin & Jenrette, calls Zuendt "the banking industry's best-kept secret."

Zuendt's role is to push Wells Fargo into the future. Banks everywhere are trying to move consumers away from



ZUENDT AIMS TO FINE-TUNE THE CUSTOMER DATABASE

high-overhead branches and toward self-service stations such as automated teller machines and touchtone telephones. Many are also frantically retooling their systems to market more effectively. Wells Fargo, which has long invested heavily in technology, must make its bet pay off in order to remain a major player in the new world of retail banking.

Zuendt, a bona fide technoid who reads *Wired* magazine, surfs on the Internet, and uses an Apple Newton, seems especially qualified for the task. A mathematician trained at Rensselaer Polytechnic Institute, he helped a machinery company avoid bankruptcy before moving on to Stanford's business school and then to Wells Fargo. In 1980, when then-Chairman Richard Cooley got

sick of the bickering between retail marketing and operations, he put Zuendt in charge of retail as well as technology.

Zuendt says he isn't enthralled by technology for its own sake. "I hope we are never leading-edge on technology itself," he says. "I hope we are leading-edge in implementation." Certainly, Wells Fargo's religiously cost-conscious culture would have driven him out otherwise. Zuendt "is as cheap as he can be," Reichardt is proud to say. Under Zuendt, Wells Fargo became one of the first banks to offer 24-hour banking by phone. The bank also built an ATM network faster than almost any bank. Today, customers use Wells' highly advanced ATMs to pay utility bills, transfer money in mutual funds, and print bank statements. At Wells Fargo, 77% of customers use an ATM at least once a month; the industry average is 46%.

**TRICKY TERRAIN.** Largely because of its success with ATMs, now numbering 1,844, Wells Fargo has kept branches down to 624, just three more than in 1986. Even so, core deposits have grown 33%, and net income has rocketed 124%, to \$612 million—although the number of tellers and other branch employees has dropped by 1,200 since 1986 alone. Says Zuendt: "A teller is a manual ATM." DLJ's Brown says Wells Fargo's technology outpaces rival BancAmerica Corp.'s in areas such as credit cards, where Wells Fargo offers applicants introductory rates based on credit history and other measures.

Zuendt is now trying to move Wells Fargo into trickier territory. Banks everywhere are adding computing power to their databases to better target customers—projects that demand more sophistication than installing ATMs. Wells Fargo is going one step further, testing a new Unix-based client-server system for its tellers, fancier but potentially more powerful than a network of simple PCs. The system will flash tellers recommendations on products and services a mention to each customer, based on the customer's business with the bank.

Reichardt has made clear—and Hazen agrees—that Wells Fargo won't pay the high prices demanded today for bank branches, a distribution system he calls

a "dinosaur." That disdains increases the pressure on Zuendt to grow profits using technology to reach new customers—while not alienating older, wealthier depositors who wouldn't touch a bank if their lives depended on it. Zuendt has his work cut out for him.

By Russell Mitchell  
San Francisco

## BANKING WITH BILLY



### ATM SERVICES

Highly advanced cash machines provide access to IRA, CD, and Wells mutual-fund accounts. Customers can also use ATMs to pay utility and store bills and print out full bank statements.

### OVERDRAFT PROTECTION

Computers assess overdrawn customers' balances and payment histories to determine likelihood of recovery. Result: in 1993, Wells paid twice as many overdrawn checks and cut losses 10%.

### SMALL-BUSINESS LOANS

Wells uses computers to break small-business accounts into narrow subsegments and price loans based on creditworthiness. Wells has lent close to \$2 billion to small businesses since 1989.



GENE G. MARCIAL

## NATUZZI: AN UNDISCOVERED ITALIAN GEM

Like many other wary pros these days, money managers Allan Raphael and Arthur Lerner think grass is greener overseas—including Italy, which they admit isn't attracting too many American investors. "But if you take the time to look at individual companies in Italy, you'll find a Natuzzi," says Raphael. He's referring to Industrie Natuzzi, the world's largest designer and manufacturer of contemporary leather-upholstered chairs and sofas.

Natuzzi is an example of a still "undiscovered gem" in the global market, which has the promise of becoming a hot chip, say Raphael and Lerner, co-managers of the First Eagle International Fund, a mutual fund formed recently by the New York securities firm Rindhold & Bleichroeder.

"Certainly we expect Natuzzi's stock to become as hot as its leather sofas," says Raphael. Natuzzi went public in the U.S. in May, 1993, at 15, and its American depositary receipts are now trading on the Big Board at 27. Raphael and Lerner figure the stock is still way undervalued: They expect it to hit 60 in about two years.

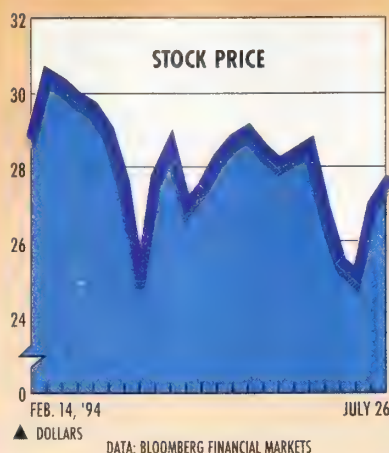
Natuzzi exports 96% of its output to the U.S., Asia, and other countries in Europe. Based in the Southern Italian town of Santeramo, Natuzzi is "unbeatable" in the furniture industry for high-quality products, manufacturing automation, and employee loyalty, says Raphael.

**JUMPED UP.** These factors have fostered impressive sales and earnings growth, he adds. Overall sales have increased at a 17% annual rate over the past five years, while net income has grown nearly 32% annually. Last year, Natuzzi's worldwide sales jumped 10%, to \$271 million, and its earnings per share jumped by 78%—from 77¢ to \$1.37.

This year, Raphael expects the company to earn \$1.75 a share and \$2.10 in 1995. Sales, he figures, should balloon to \$310 million this year and to \$370 million in 1995.

In the U.S., Natuzzi supplies 20% of the market for leather furniture. Major customers include Federated Department Stores, R. H. Macy, Sears

## A REAL BUY IN SNAZZY LEATHER FURNITURE?



Roebuck, May Department Stores, and Montgomery Ward. In early 1994, Natuzzi introduced a limited line of fabric-upholstered furniture that's being test-marketed in Europe.

## DILLER, DISNEY, AND CBS?

**T**he cast hasn't changed much, but there are important new twists in the CBS takeover script. The betting now among buyout pros is that Disney Chairman Michael Eisner and QVC Chairman Barry Diller are in a frenetic race to strike a deal with Laurence Tisch of CBS. Ace investor Mario Gabelli says: "There's a big mating game going on" between CBS and certain groups, including Diller and others.

Tisch denies CBS is for sale. But few believe him—not since June, when he agreed to a merger with QVC, promising to cede the CBS stewardship to Diller. That was before the \$2.2 billion offer by Comcast to buy QVC in mid-July. Tisch quickly backed off.

"But don't count out Diller, who is forming a group to resume his quest for the CBS plum," says an investment banker whose firm is involved in raising part of the cash the Diller group will need. This banker says Diller will collaborate either with BellSouth or Tele-Communications Chairman Jack Malone. "One way or the other, CBS will go for sure," he asserts.

But Eisner, who has just had a quadruple bypass, may head Diller off at the pass. He is said to want a friendly CBS merger to reassure shareholders that Disney's leadership is in-

tact and that he's on top of things. "It would be incredibly stupid for Eisner not to take this golden chance to merge with a TV network," says an analyst who knows Tisch and Eisner.

"Although Mike doesn't buy retail and Tisch won't ever sell at a wholesale price, the two might just compromise and meet halfway," says this analyst. He figures CBS, now trading at 311, could command a buyout tag of 400 a share. But Tisch may do a deal at a lower price—with Eisner or Diller.

"Disney and CBS are an incredibly logical fit," says David Londoner, entertainment analyst at Wertheim Schroder. CBS has the "broadest reach of any media property in the country," he says. It could highlight Disney's most valuable consumer products and services. And as a producer of prime-time programs, Disney could benefit mightily from owning CBS, he adds.

## BETTER CHEMISTRY AT UNION CARBIDE

**U**nion Carbide is on the comeback trail. Its intense cost-cutting measures are bearing fruit—ahead of expectations. As a result, big investors, including Fidelity Management and billionaire financier George Soros, have been accumulating shares. The stock, which was trading at 16 in early 1993, is now at 28.

"The company is one of the best plays in the economy's recovery," says Paul Raman, an analyst at the New York investment bank S.G. Warburg. He thinks the stock is still underpriced and is likely to climb to the high 30s in a year. True, sales volume has shrunk from 1980 levels, when Carbide was a fairly diversified conglomerate with 20 important businesses. After the 1985 explosion in Bhopal, India, followed by a takeover attempt by specialty chemical maker GAF, Carbide started to slide. The company incurred a huge amount of debt and was forced to sell off assets.

Demand for Carbide's current output, especially fabricated plastic products, specialty polymers, and industrial chemicals, has been strong, notes Raman. Its polyethylene is widely used in packaging, and Raman notes that the rise in polyethylene prices, in particular, is a big boost to earnings. So Raman has raised his 1994 earnings estimate to \$1.50 a share from \$1.40, vs. 1993's \$1.05. For 1995, Raman sees earnings of at least \$2.





# A FUROR OVER MENTAL HEALTH

As companies turn to managed care, criticism is soaring

**F**or as long as retired DuPont Co. executive Jack R. Salley can remember, his daughter Danielle was a troubled kid. In elementary school, she struggled with dyslexia and motor-control problems. As a teen, her learning disabilities made her angry and frustrated: She lashed out at teachers, classmates, and her family and fantasized about killing herself. After a psychiatrist diagnosed her as severely depressed, Danielle entered Louisiana's DePaul Northshore Hospital. In the fall of 1990, at age 13, she checked in for the third time—after two relapses. Her “potential for suicide was immense,” says Salley.

Though Danielle's illness devastated her family, Jack Salley took comfort in the fact that DuPont's benefit plan covered the roughly \$150,000 in bills from her first two hospital stays. In 1988, however, DuPont had hired Preferred Health Care in Wilton, Conn., to curb its mental-health costs, which were rising 15% or more a year. Preferred case managers had been

pressuring Danielle's doctors to keep her hospitalizations brief. When during her third visit a doctor said Danielle had stabilized, Preferred refused to pay any more—despite the doctor's warning that Danielle could kill herself if released. Fearing for her life, Salley kept Danielle in the hospital three more months. As some \$40,000 in bills piled up, he sued.

In 1992, a federal appeals court in New

**When DuPont cut off his daughter's benefits, he went to court**

**JACK SALLEY**  
RETIRED DUPONT EXECUTIVE

Orleans sided with the Salleys, ruling that by not thoroughly reviewing Danielle's files before cutting off her benefits DuPont “abused its discretion.” Danielle eventually went to a special boarding school and is doing well now. Still, DuPont stands by its handling of the case. Having to review every record in every case is a “needless burden,” argues Dr. Bruce W. Karrh, DuPont's vice-president of integrated health care. He adds, “Laurence E. Best, a DuPont outside attorney, ‘the only way companies can keep these cases in control is to manage the cases.’”

A troubled teen. A heart-sick family. An employer struggling to offer appropriate benefits without letting costs soar. Doctors second-guessed by distant third parties. The Salley

case is a microcosm of the frustration and turmoil in the mental-health-care industry, which is being transformed by employers. As with conventional medicine, companies are turning to managed care to rein in mental-health costs that doubled in the 1980s, to 10% of the average large employer's health-care bill. Frustrated by the ambiguous nature of the therapeutic process, employers are embracing the same rigid cost and treatment guidelines that now govern everything from heart surgery to flu shots.

Managed care is indeed curbing mental-health spending—which the American Psychiatric Assn. and others put at about 10% of the nation's \$900 billion health bill. But in the cost-cutting frenzy, critics say, employers are going too far. More and more, moves made in the name of efficiency are wreaking havoc on the lives of emotionally troubled employees and their families. “There are some shoddy operations out there that say they're going to manage you

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ENROLLED  
IN MENTAL  
HEALTH  
PROGRAMS\*  
AS OF JAN. '94

DATA: OPEN MINDS

\*REPRESENTS 52% OF INDUSTRY



tal-health costs," says Bill Hoffman, oversees benefit programs for mem- of the United Auto Workers.

problems with managed care aren't ue to mental health—just thornier use of its complex and delicate na- . Patients and therapists cite denial eatment, privacy violations, and oth- buses. In the past four years, the rican Psychiatric Assn. has fielded ) complaints over managed-care is- . A dozen states have passed laws lating managed-care practices, and rs are considering bills to do so. in Washington, lawmakers debating th-care reform are weighing the al- of managed mental- th care against the ing criticisms of it.

**PENNY-WISE.** Increasing- o, lawsuits are reveal- disturbing—even egres- s—behavior. And plain- are seeking to hold loyers accountable, a d that could mean dire equences for compa- . If the perceived abus- continue, they risk los- a federal liability nption that has shield- hem from big damage rds. "Companies are fo- ing too much on cutting s," says attorney Den- Coleman, a partner in New York benefits firm sha Lipton. "They may rading one set of prob- ; for another."

most nonexistent 10 's ago, managed-men- ealth-care companies now a \$2 billion indus- says industry re- cher Open Minds in tysburg, Pa. Open ds estimates that such ers as Merck & Co. sidiary Medco Behav- l Health Systems, Value Behavioral th, Human Affairs, plus scores of ller companies and health-mainte- e organizations offer mental-health eage to 100 million people. As of %, two-thirds of all employers had aged care for mental-health bene- says benefit consultants Wyatt Co., the number is rising. At the same , five states have converted their licare systems to managed care, and ore are mulling it. "Companies have gned a model that's being adopted the public sector," says Monica E. . Open Minds' president. ompanies were once loath to get in- ed in employees' emotional lives. they've decided that "to not do good tal-health care is penny-wise and

pound-foolish," says Patricia M. Arm- strong, manager of employee assistance programs at Wells Fargo Bank. "With fairly brief interventions, you can get people back on the job and save a bun- dle." Troubled workers are distracted and even violent. Depression is the No. 1 cause of corporate absenteeism, says the Washington Business Group on Health.

Yet employers have reason to reject the old system. Before, patients picked their own doctors, and companies wrote checks for treatment that didn't exceed the time or visit limits in benefit plans. Some providers exploited the plans, especially for adolescent hospitalizations

drome," an expression some benefits managers use to describe therapy as a self-indulgent hobby. But it wasn't al- ways the consumer's fault: "There was a powerful incentive [for therapists] to find problems," says Darling.

Managed mental-health care keeps costs down by tracking each patient's care. In return for referrals, providers must follow set rules and try to keep people out of the hospital. Patients don't choose therapists but request referrals from a "gatekeeper." Says Alan J. Shus- terman, president of CMG Health, a be- havioral-health firm in Owings Mills, Md.: "We are agents of transformation for mental-health treatment. We're not only lowering costs but restructuring the way care is given."

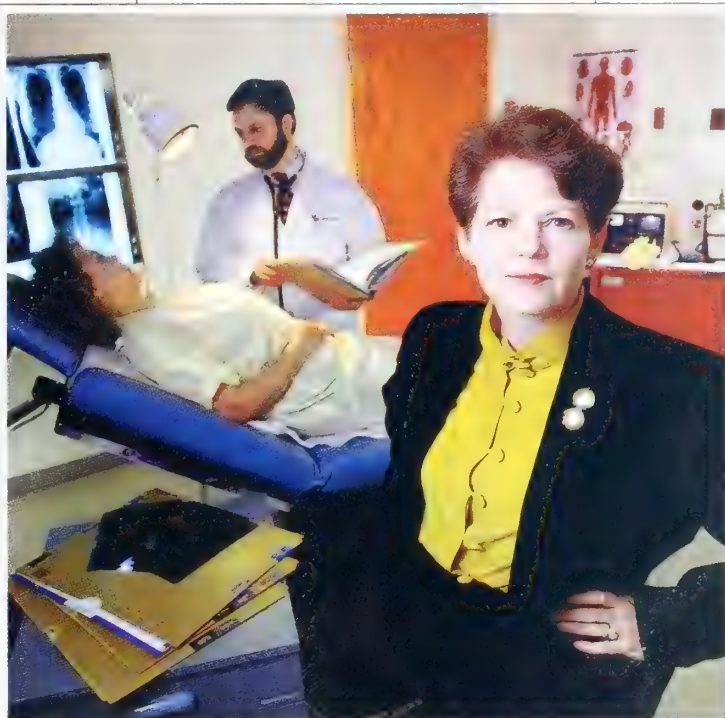
**INSENSITIVE.** So far, the systems are raking up big savings in such companies as Federal Express, Pacific Bell, and Dow Chemical. After IBM hired Value Be- havioral Health, mental- health spending per em- ployee dropped from \$521 in 1990 to \$375 in 1993. Similarly, managed-care company Integra Inc. helped Sterling Winthrop slash its mental-health spending 47% from 1992 to 1993—while increasing uti- lization (chart, page 68).

Still, providers such as San Francisco psychiatrist Mark Levy say managed care amounts to "the low- est level of expertise, for the shortest amount of time, with a bias toward medication." And that means either therapists come up with a quick diag- nosis and succinct treat- ment plan or risk losing business. "It's very impor-

tant that practitioners get trained in this," says Dr. Ian A. Shaffer, chief medical of- ficer of Value Behavioral Health. "They're going to be expected to practice this way." Simon H. Budman, director of men- tal-health training at Harvard Commu- nity Mental Health Plan, is responding. His consulting firm trains therapists in "time-effective" care (page 69).

Critics say the shortcut approach is too insensitive for ailments of the mind. "Corporations don't understand what mental health is about," argues Karen Shore of the New York-based Coalition of Mental Health Professionals & Con- sumers, an anti-managed-care group. "Since they don't understand it, they should not be dictating treatment."

Companies may not even realize the



*"There was a powerful incentive [for therapists] to find problems"*

**HELEN DARLING XEROX HEALTH-CARE MANAGER**

and substance abusers. In a dramatic case, Santa Monica (Calif.)-based National Medical Enterprises Inc. on June 30 agreed to pay \$379 million to settle charges it provided enormous amounts of unneeded inpatient psychiatric care.

The initial efforts of some employers to clamp down weren't successful. When Xerox Corp. liberalized outpatient benefits to avoid the abuses of inpatient care, its mental-health spending soared 55%, from \$216 per covered employee in 1988 to \$368 in 1990. Average annual outpa- tient visits per covered employee bal- looned to 36—at least three times the national average. Helen Darling, who oversees health-care programs for 55,000 Xerox workers and their families, blames the rise partly on the "Woody Allen syn-



angst they're causing. BUSINESS WEEK spoke with more than two dozen patients, most of whom refused to be named. "One of the devious aspects of this is that if you work for a big company, you're not going to go complain to personnel because you don't want to be identified as a mentally ill person," says Boston psychiatrist Frederic Schiffer.

**COPING.** In March, Schiffer filed a class action on behalf of therapists and patients against the Bay State Health Care offered by Blue Cross/Blue Shield of Massachusetts. The suit includes depositions from eight anonymous patients who allege that the HMO denied or interfered with care. Bay State is fighting the case. But in June, it announced changes, partly in response to the suit: It will release provider lists to give patients more options. It also said it will make it easier to get at least an initial block of seven outpatient visits.

To M.J. Merrick, a former data analyst from Park Ridge, Ill., such changes can't come soon enough. For the past 20 months, Merrick, who suffers from severe depression and agoraphobia (a fear of open spaces), has been fighting her insurer for reimbursement of her five-day-a-week psychotherapy treatments that she feels she needs to avoid constant crises, plus \$20,000 in past

## HOW ONE COMPANY CUTS COSTS

Drugmaker Sterling Winthrop hired managed-care company Integra in 1993 to run its mental-health program



DATA: INTEGRA INC.

charges she says the company denied retroactively. "The pressure makes you feel like you're going to explode," Merrick says. "The irony is you have to be more functional than a non-ill person to cope with the process."

Benefit managers concede that HMOs skimp on mental-health care. According to Interstudy, a Minneapolis consultant, many HMOs spend just 3% of their treatment budgets on mental health—less than half what experts say they should. Pacific Bell and several other major California employers, including Chevron Corp. and Wells Fargo, say their HMO coverage for mental health was so inadequate that they had to employ specialty companies to supplement it.

Concern over the quality of care is heightened by the increasing reliance of managed plans on clerks who answer employee calls. These gatekeepers, critics say, often lack appropriate training in psychotherapy and are instructed to base decisions on whether to authorize care on rigid guidelines. Many of the people interviewed by BUSINESS WEEK cited access problems as a primary frustration.

A New York City woman, for example, says she recently sought care for her husband—a recovering alcoholic who feared a relapse—and called the 800 number for PruCare, the managed-care arm of Prudential Insurance Co. The PruCare clerk said because her hus-

band had been "dry" more than a year, he was considered cured and eligible for counseling. "Are you trying to tell me unless he goes out and gets drunk you won't help him?" the woman asked. She says the reviewer said yes, then added: "But I would not recommend it." Richard Kunnes, president of Prudential Psychiatric Management, says PruCare has such policy and that such a conversation would be "unreasonable." Our philosophy is affirmative access. Care should be managed after the person is evaluated."

**NEW LAWS?** One complication for patients is that the line between managed mental-health care and employee-assistance programs (EAP) is blurring—with disturbing privacy implications. Starting in the 1950s, EAPs were mainly designed to help alcoholics. They now offer short-term counseling on everything from marital woes to stress. More than 60% of large companies have these programs, says Open Minds' Oss. While EAPs have advanced as confidential, employees must sign waivers letting the company dig into their files in the event of a lawsuit or workers' compensation claim. And if the employee admits to violent or self-destructive behavior, the EAP counselor legally must alert appropriate parties, such as the person's family or manager and the police.

The trouble is that such policies can be exploited. For instance, more companies are making EAP counselors gatekeepers for access to all mental health care. At DuPont, EAP counselors assemble their own networks of providers. And in order to qualify for the richest benefit—90% of the treatment cost covered—an employee or dependent must first contact the EAP, explain the problem. EDS, Campbell Soup, and others also are giving the EAPs more gatekeeping power. DuPont Vice-President Karrh concedes that EAP "can be used as a sword by an unscrupulous employer against an employee." But he adds that at DuPont, if EAP professionals "do the right thing for the patient, their job is fine."

The question is, who defines "the right thing"? For independent providers—doctors, social workers, and other professionals—the answer is state practice laws and professional ethics that are enforced largely by the threat of malpractice suits. But managed mental-health-care companies have g-



*"The pressure makes you feel like you're going to explode"*

**M.J. MERRICK** FORMER DATA ANALYST



is protection from liability. In fact, one of the remarkable aspects about the Salley case was that it went to court at all. Because DuPont is self-insured, the Employee Retirement Income Security Act (ERISA) exempts it from state laws providing for punitive and other damages for companies found negligent. And plaintiffs who lose must pay company legal fees. It was only because the lawyer and a friend were attorneys that they could pursue the

the courts have extended the extension to managed-care outfits operating on the self-insured's behalf. Since about 75% of the nation's largest 1,000 companies are self-insured, critics say employers have not worried as much as they would have otherwise about the costs they've hired to manage cases. Such freedom may soon end. Courts' recent rulings are expressing frustration with the limited redress patients

have, and that has led to bills in Congress aimed at amending ERISA, says Kwasha Lipton's Coleman. One of the two health-care-reform bills pending in the Senate would let beneficiaries sue employers and collect punitive and other damages for improperly denied claims. Coleman now urges companies to view their actions in the managed-care arena through the "lens of liability." Providers, meantime, are pushing states to better

police managed care in general, including mental health.

In the face of such pressures, benefit experts are urging companies to shape up their plans now. Mary Jane England, president of the Washington Business Group on Health, says more companies already are building quality standards into managed-care contracts to offset "the incentives to under-treat." At a minimum, experts say, companies should review their mental-health plans. "We're constantly evaluating it and getting more feedback," Hoffman says of the UAW. "That's not my sense of what's happening across the country. You really have to put some money and effort in to do it right." Managed-mental-health care has proven it can cut costs. Now, it's up to companies to show that it can do so without hurting employees.

*By Joan O'C. Hamilton in San Francisco, with Michele Galen in New York and bureau reports*

## GROWING GRIEVANCES

*The American Psychiatric Assn.'s four-year-old managed-care hotline logged 7,000 complaints. Among the most common:*

- ▶ Denial of care for long-accepted disorders
- ▶ Excessive demands for sensitive patient data
- ▶ Untrained clerks following rigid rules denying cases
- ▶ Deceptive advertising of benefits
- ▶ Interruption of treatment

DATA: AMERICAN PSYCHIATRIC ASSN.

## SPENDING LESS TIME ON THE COUCH

Simon H. Budman is one psychologist who isn't suffering the constraints of managed mental-health care. As the director of mental-health training at Harvard Community Health Plan—New England's largest HMO—he says he's "catching the wave" of change. That's because Budman, age 47, is also the founder and president of Innovative Training Systems Inc., a consulting company based in Milford, Mass. Hired by managed-mental-health-care companies, hospitals, and community health centers, the company trains old-school therapists in Budman's methods of "time effective" treatment.

Goal-oriented and practical, Budman's techniques are in line with the solution-focused therapy now advocated by companies. His dozen or more clients include Virginia-based Value Behavioral Health, with 14 million subscribers, including IBM, and Opus Mental Healthcare, based in Norfolk, Va.

Fueling the interest in Budman is a fundamental shift in the practice of psychology to meet today's very real economic pressures. It is only the privileged few who can afford the long-term treatment stereotypical of psychoanalysis. Instead, most Americans increasingly find themselves limited by a company

to 6 to 10 sessions with a therapist. And whereas Sigmund Freud and his disciples sought to cure a person of some underlying pathology, today's shrinks are being pressured to focus on solving an immediate problem—dissension between a husband and wife, for example.

**HOMEWORK.** Budman's goal is to provide the most quality in the least amount of time—and at the least expense. Instead of open-ended therapy that drags on for years, he advocates a quick diagnosis and a succinct treatment plan with a specific goal agreed upon by the client and therapist. A key part of Budman's strategy is

"homework," or activities outside of the counseling sessions (table). He also believes treatment should be episodic—meaning that people come for a few sessions to deal with one issue, such as an impending marriage, and come back later to deal with death or divorce.

Budman admits that many psychoanalysts would "abhor this kind of treatment." Johanna K. Tabin, a psychoanalyst in Glencoe, Ill., says of short-term proponents: "I don't believe the effects of this kind of therapy are long-lasting." Stuart A. Pizer, a psychologist in Cambridge, Mass., notes that while Budman's views are admirable, they don't work for patients suffering from more complex problems. "Cutting these people off is just plain cruelty," he adds. Still, many therapists will have no choice: If they want to earn a living, they have to adapt—and Budman's training teaches them how.

The debate about how much therapy is necessary will only increase as managed care becomes the status quo. But the reality is that most companies have already adopted the model. As they seek to balance their quest for big savings with quality care, Budman's message is one that both employers and many therapists will embrace.

*By Naomi Freundlich in New York*

## SCHOOL FOR SHRINKS

*Simon Budman teaches therapists short-term, goal-oriented therapy. Here are some of his techniques that make use of out-of-office time:*

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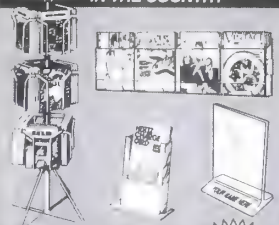
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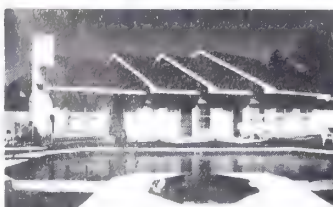
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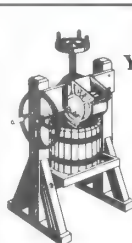
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## MAYBE THEY'LL CALL IT THE MOOLA BOWL

1 games are in a big-money scramble for a super-showdown

**R**quick! Who's No. 1 in college football? If you say Florida State University, you're right. But did-ports Illustrated claim the Seminoles' title is tainted by a rules-flouting al? And didn't Notre Dame give a lesson in football, Irish-style last a drubbing the Florida boys won't forget? In any case, the National pionship was bestowed in the end, ways, by a vote of sportswriters S. newspapers large and small.

true playoff. Under the new system, devised by the commissioners of most of the major conferences, the number of games on New Year's will shrink, and conference champions will no longer be tied to a specific bowl—except in the case of the Rose Bowl, which will continue to be a showdown between the Big 10 and Pacific 10 conference champs. Nine bowls will present sealed bids in Dallas on July 29-30 for the right to host a national championship game fea-

ange, IBM OS/2 Fiesta, and Outback Steakhouse Gator bowls, in hopes those three will end up the winning bidders. "That's nothing more than a TV network trying to buy college football," grouses Robert Dale Morgan, executive director of Atlanta's Peach Bowl, which is considered a long shot for one of the three slots. Armed with CBS's offer, in the initial round of bidding the Fiesta offered \$27 million in prize money for a collegiate super bowl. With Capital Cities/ABC Inc. sure to fight to have the USF&G Sugar Bowl win a slot, final bids are expected to be in the \$30 million to \$35 million range by the time the commissioners tap the winners, sometime between now and Labor Day.

**CLAMOR.** The bowls have long cannibalized themselves by competing for splintered TV ratings on New Year's Day. The new plan would halt such competition by holding a No. 3 vs. No. 5 game on Dec. 31 and a No. 4 vs. No. 6 game on Jan. 1 as preliminaries to the national championship game. "If everyone has an exclusive window, we should be able to see a pretty dramatic increase in ratings," predicts Troy Mathieu, executive director of the USF&G Sugar Bowl. And, of course, the price of a corporate sponsorship would rise, too.

Alliance organizers concede they felt compelled to act after the National Collegiate Athletic



5 NO. 1? THE BOWLS THEMSELVES MAY ACT TO RESOLVE DOUBTS

### BIDDING FOR A NATIONAL CHAMPIONSHIP GAME

What the top bowls initially offered to pay the contenders in a No. 1 vs. No. 2 showdown (and what they paid bowl participants in 1994).

|                                      | Initial offer<br>Millions | 1994<br>Millions |
|--------------------------------------|---------------------------|------------------|
| <b>IBM OS/2 FIESTA BOWL</b>          | \$27                      | \$6.0            |
| <b>FEDERAL EXPRESS ORANGE BOWL</b>   | 26                        | 8.6              |
| <b>OUTBACK STEAKHOUSE GATOR BOWL</b> | 25                        | 3.0              |
| <b>USF&amp;G SUGAR BOWL</b>          | 20                        | 8.2              |
| <b>MOBIL COTTON BOWL</b>             | 18                        | 8.2              |

DATA: COLLEGE BOWL ALLIANCE, BUSINESS WEEK

at's how things have been for s, and that's the way the bowl s have liked it—until now. Despite nd by fans and pundits for a win-ake-all playoff series, as in other iate sports, the bowl honchos have dug in their heels. They fear play-ould render their games meaning- and ultimately obsolete. That fright d an unmistakable role in the mion of bowl games to New Year's over the past decade, the advent of biquitous big-time sponsorships, he formation of the three-year-old ge Bowl Coalition, which gives the nd games a single voice.

w, after a spate of serious outside s to launch a postseason tourna—which could sound their death—the bowl games are forming a alliance that's one step closer to a

turing the teams that finish one-two in the polls at the season's end. Just three of the nine bowls will make the cut, and the collegiate super bowl will rotate among them after the 1995 season.

That one or more of the most venerable bowl games could be shut out of this consortium doesn't faze its organizers. Money talks, tradition walks. "The desire to maximize revenue is central to this," says Atlantic Coast Conference Commissioner Gene Corrigan, who is heading up the effort. "We're looking for the best deals." And who can blame them? The money's there.

Desperate for programming after losing the National Football League to Fox Broadcasting Co., CBS Inc. raised the stakes last month by offering a combined \$300 million over six years for the rights to the Federal Express Or-

Assn. named a committee to study the issue. Over the past two years, several groups—including a consortium headed by Hollywood dealmaker Michael Ovitz and another fronted by Walt Disney Co. and ABC—have tried to persuade the NCAA to launch a tourney for Division 1-A football. But university presidents, who ultimately make such decisions, rejected a playoff scenario for now, and bowl organizers breathed a sigh of relief.

Still, the demand for a decisive championship series won't go away. The clamor from fans will continue, and the big-bucks offers will roll in, growing in magnitude. "What we're doing now could be only a three-year solution," admits the ACC's Corrigan. Still, even this stop-gap has got to be better than eight bowls in a pileup on New Year's Day.

By Keith Dunnivant in Atlanta



## COMMON SENSE 101 FOR STUDENT LOANS

**W**hether you're paying college tuition now or looking forward to that delightful prospect, Uncle Sam is about to give you new options for handling those bills. For years, the federal government has subsidized loans from banks under the Stafford loan program, which will still be available. But the Clinton Administration also wants to make direct student loans. In July, the Administration unveiled its program, which offers easier terms than the government-guaranteed student loans and a wider variety of payment options. The new options permit smaller monthly payments stretched over as many as 30 years, as compared with standard 10-year student loans.

Students can apply for the new plan at 104 schools. Washington hopes that by 1998, 90% of all student loans will be made by the government. Families with teenagers first entering college are eligible, as are the 25 million people who are already paying banks back \$60 billion in student loans. Under a plan to be unveiled soon, current borrowers can switch to government loans without penalty. For example, if you have a Stafford loan issued by a bank, you can convert to a government loan with a more lenient repayment schedule.

Administration officials still urge families to dip into their savings to help pay the bills.



The cost of a private four-year college averages \$90,000 nowadays, and financing the tab exclusively with debt could capsize most family budgets. You don't want to default later on—it will wreck your credit rating, and your pay may be garnished. "You have to start early accumulating money for college," advises Leo Kornfeld, the Education Dept.'s Deputy Assistant Secretary for student financial assistance. "For the middle-income family, it's the second major investment behind their homes."

Yet the government's initiative could be especially helpful for people of modest means,

such as Marjorie Merimonde, a 47-year-old service technician for Xerox and divorced mother of two. In the fall, her 18-year-old daughter, Jaime, will enter Muhlenberg College, a small liberal arts school in Allentown, Pa., costing \$23,000 a year for tuition and room and board. In four years, it will be daughter Jaclyn's turn. Through a patchwork quilt of loans, Jaime is set for her freshman year, but the lure of stretched-out lower payments has Merimonde considering a new scheme for the future. "Let us get through the first year, and we'll worry about the rest later," she says.

If Merimonde chooses a direct government loan, she'll have four options. One would be a 10-year payment schedule identical to the standard bank loans that are still offered. Students pay monthly installments of at least \$50. Another choice extends the payment schedule on an increasing scale as the size of the loan increases. A student who borrows less than \$10,000, for example, would pay back the money on a 12-year schedule, while a student borrowing \$60,000 would pay back over 30 years.

**FLEXIBILITY.** A third possibility involves a graduated payment arrangement. At the time diplomas are handed out, students would owe relatively little, but payments would increase according to a set schedule based on the assumption that the student's income would rise. (It doesn't happen, then,

rower can switch to an alternative repayment plan.) When incomes are modest, the graduated payments effectively would pay low-market interest rates.

### WHAT YOUR LOAN MIGHT COST

*Assuming a student borrowed \$17,125 to attend college at 8% interest, here are the guidelines on how much a subsidized Stafford loan will cost:*

DATA: FINANCIAL RESOURCES NETWORK INC., BUSINESS VENTURES



difference between what are paying and the mortgage rate would be added to the loan balance. The length of the loans could vary from 10 to 30 years.

The final option pegs monthly payments to income, as reported to the Education Dept. by the Internal Revenue Service. Details are being ironed out, but under this arrangement, repayments will vary according to a borrower's adjusted gross income. Borrowers can expect to be charged 3% to 15% of their net incomes, depending on the loan amount. And if the loan isn't paid off after 25 years, the outstanding debt is forgiven.

**DRAWBACKS.** The Administration's plan is not without its drawbacks. Lower monthly payments and a longer pay period mean paying more over the life of the loan. And tacking on the loan has its own drawbacks. Your child could still be saddled with college loan payments as they're sending their kids off to school. "The plan will be more flexible," says Ray Loewe, president of National Planning Systems, a financial consulting firm in Marlton, N.J. "But the problem is that sooner or later it catches up with you."

Far and away the greatest benefit of aid for students and parents are subsidized or unsubsidized Stafford loans. The subsidized loans are available in multiples of four with interest rates of less than 8%. Under the plan, the government pays the interest on the loan through college and up to 12 months after graduation.

The unsubsidized Stafford loan, which is not subject to income restrictions, starts accruing interest immediately at the one-year Treasury bill rate. In either case, no payments are required until six months after the student graduates. The maximum loan amount over five years is \$23,000.

So-called Perkins loans are even more attractive, if you're lucky enough to get one. Loans are dispensed on a first-come, first-serve basis. Eligibility limits are similar to Stafford loans, but interest is only 5% (vs. 7.5% for current Stafford loans) and doesn't accrue until after graduation.

Students who need more than \$23,000 may want to explore the federal PLUS loan program. These 10-year loans, which are also offered through some employers, allow parents to borrow 100% of the cost of college, less the amount a student has received from Stafford and Perkins loans and other aid sources. The interest is 3.1 points over the one-year Treasury bill rate. The time you have to pay the debt depends on the amount you borrow: 12 years for a \$7,500 loan, say, and 30 years for loans of \$60,000 or more.

The financial aid officer at your college can clue you in about private scholarships and grants. You may want to consider a home equity loan, whose interest payments are tax deductible. As a last resort, you could borrow from your 401(k) employee retirement fund, an unwise practice that could deplete your retirement investments.

The best strategy, of course, is to limit your borrowing by saving as much as possible. "Parents need to cut costs and better position themselves," consultant Loewe advises. The key is to start early. You have a wide range of options, but procrastination is not one of them. *Christina Del Valle*

## Smart Money

### ITEMIZING BENEVOLENCE

It's getting harder to give your money away: Uncle Sam has become downright picky about how you report your largesse. Yet you still feel philanthropic, especially since higher tax rates mean bigger charitable deductions at tax time.

Under the old law, a canceled check was adequate proof of your donation. Now, you need a written receipt from the charity listing gifts of \$250 or more. Most charities are gearing up to mail out such letters automatically, but you must make sure you receive and keep them. "Get them now rather than after New Year's, when

City's public television station. But, she says, if you do receive such a religious benefit or if you aren't offered anything in exchange for your gift or refuse any items, that must be clearly stated in the letter.

The new law also encourages gifts of appreciated stock. In the past, you could deduct the present value of stock you donated, but you had to add back any appreciation over your original cost when calculating the onerous alternative minimum tax. Now, you can write off the stock's current value without worrying about the AMT. (Don't confuse this with a

### THE NEW RULES ON CHARITABLE GIFTS

► Make sure to get letters from charities for gifts of \$250 or more. The letter must indicate the value of any goodies you get in return for your contribution—which should be subtracted from your deduction.

► Gifts of appreciated stock are no longer subject to the alternative minimum tax.

► Noncash gifts need to be acknowledged but not valued by the charity. Gifts of more than \$5,000 must be accompanied by a qualified appraisal.

everyone will be asking for them," says Mark Kersting, an accountant at Urbach Kahn & Werlin.

In the letter, charities must also note the value of goodies they give you in exchange for your donation. You can't write off the \$75 concert tickets you got in return for your \$250 donation to the local orchestra: You can only deduct \$175. Small trinkets, such as key chains, are exempt. So are "intangible" religious benefits. "Giving to a church or synagogue in return for a seat or a pew won't reduce your charitable contribution," says Davida Isaacson, director of planned giving at WNET, New York

law starting in 1995 that limits your deduction to the stock's cost rather than its present value. That applies to private foundations—not public charities.)

Noncash donations of art or clothing must also be described in the charity's letter, but declaring their value is up to you. A rule of thumb for clothing, says Stuart Kessler at accounting firm Goldstein Golub & Kessler, is 15% of the original price. Remember to file a qualified appraisal with noncash gifts worth more than \$5,000. All this may mean more paperwork now, but next Apr. 15, you'll be glad you did it. *Pam Black*

| Plan | Monthly Tab | Total Payments |
|------|-------------|----------------|
| RR   | \$207       | \$24,840       |
| RR   | \$132       | \$39,600       |
| RR   | \$126       | \$45,360       |

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|----|-------|---|
| RR | \$150 | * |
| RR | \$242 | * |

ACCUMULATED INTEREST CANNOT EXCEED 150% OF THE AMOUNT NOT PAID AFTER 25 YEARS IS FORGIVEN.



**A**t 1:30 a.m., Win Whittaker's voice broke the bunkhouse stillness. It was the news we had prayed for: a windless starry June night, firm snow, no precipitation. "Dress light. Eat as much as you can. We'll rope up in an hour," he said.

So began Day Four of the Camp Muir Seminar, a five-day high-altitude-training program run by Rainier Mountaineering Inc. in Paradise, Wash. (206 569-2227). Such gatherings attract some 2,500 climbers each year from May to September. Since Monday, 23 of us had bunked shoulder-to-shoulder in a plywood shelter, from which we set out each morning to practice ice-climbing techniques. The spectacular 10,000-foot-high setting alone made Camp Muir worthwhile. Mt. St. Helens and Oregon's Mt. Hood poked through a white cloud layer below us. The glaciers around us opened with regular cracks and pops, and the rumble of warmed rock and snow breaking loose was a reminder of the high-peak dangers.

**HIGH HOPES.** We came to Muir hoping to reach Mt. Rainier's summit, 4,000 feet above us. Volatile weather had defeated several teams in the past few days. Still, we had mastered ice-ax safety, rope-climbing, crevasse rescues, and the six basic knots of mountaineering.

Now, as we strapped ice-gripping crampons on our boots, we shared a rush of anticipation. At 14,410 feet, Rainier is the toughest endurance climb in the continental



## Outdoors

### ICE-AXING YOUR WAY TO THE TOP

U.S. Two hours east of Seattle, its huge dome turns Arctic and Pacific air masses into a year-round brew of sleet, snow, and 80-mph winds. "When my uncle was training for Everest, this was the only place he used," said Win, referring to Jim Whittaker, the first American to scale the Himalayan summit.

Our conditioning had started earlier in the snowfields at Rainier's Paradise Lodge. Perspiring under loaded packs and balancing with ski poles, we practiced step, rest, step, rest—exhaling with each move. It was the only way to avoid muscle burnout in the deep, wet snow.

Like distance running or biking, high-altitude climbing tests mental discipline. "The best climbers are the most patient," says Tracy Roberts, who has led expeditions up Everest and Mt. McKinley.

Now, roping-up on the glacier, I wondered how much stamina I had really stored up.

3:00 a.m.: The start across Cowlitz Glacier seems too easy. I slow down, but even with just a fleece top, long johns, and knee-high gaiters, I'm warm.

3:45: The fun ends as we ascend a rock slide at Cathedral Gap and wheeze up a frozen ridge to the Ingraham Glacier. At first rest, we collapse and chug water. Our guide, Craig Van Hoy, rubs the shoulders of his three-person team. "It gets more difficult," he offers.

4:30: We're on Disappointment Cleaver, where snow and fierce winds can ruin summer climbs. Today, the only sound is our team hyperventilating in the thin air at 12,500 feet. Look up and all you see is a ridge with no end.

6:00: The Cleaver ends, but

the angle of ascent stays nearly vertical. At the break I force down a peanut-butter sandwich for energy.

7:00: We're an hour from the summit, with more chills and wind. Teammates Evan Gilstrup and Sandra Angu have pulled the rope so tight that I'm almost being tugged along. I speed up.

7:45: We reach 14,410 feet, the summit—exhilarating. Across a snow-filled crater, a register to sign. Many of us raise ice axes in a salute for photos.

8:45: At the descent, breathing is easier, but walking in the deep snow is like water-skiing in boots. As we enter Muir, three who declined the climb greet us with cameras and water bottles.

While previous climbing experience isn't required, anyone attempting this program should be physically fit. Pre-training for at least three months is necessary. Our group of 10 women and 10 men, aged 25 to 60, ran the gamut from backpackers and bike racers to rock climbers and high-altitude veterans. The Muir course is \$630, with equipment rentals extra. A three-day summit attempt costs \$381, and special fall and winter climbs are available. Whatever season you go, it's sure to be one of the more inspiring events of your life.

Bob Dowling

## Worth Noting

■ **IRS GLITCH.** If you received a penalty notice for underpaying your estimated 1993 taxes and were subject to the new 36% or 39.6% brackets, don't automatically pay the bill, says the Research Institute for America. People who underpaid taxes because of the higher federal rates should not have been penalized. Yet because of a computer glitch, taxpayers in this category who also did not opt to pay the increase in three annual installments may have been sent a penalty notice. Complete and return Form 2210 to have the charge waived.



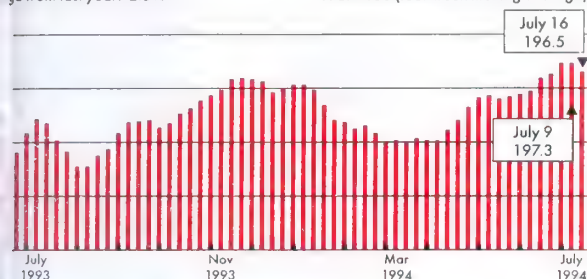
**BUSINESS WEEK'S DOWLING AT  
THE SUMMIT OF MT. RAINIER**

# Business Week Index

## PRODUCTION

Change from last week: -0.4%  
Change from last year: 2.5%

1967=100 (four-week moving average)

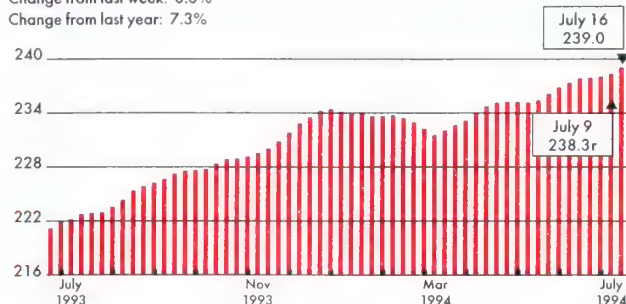


The production index fell in the week ended July 16. After seasonal adjustment, production of autos and trucks declined sharply for the second consecutive week. Output of electric power also dipped, as did production of steel, coal, and natural gas. Output of both paper and paperboard rose, along with crude-oil refining. Air freight traffic was unchanged. Before calculation of the four-week average, the index declined to 194 from 196 in the previous week.

BW production index copyright 1994 by McGraw-Hill Inc

## LEADING

Change from last week: 0.3%  
Change from last year: 7.3%



The leading index gained ground in the week ended July 16. Materials prices continued to grow at a faster rate, and the pace of real estate loans picked up as well. Also on the plus side, stock prices rallied for the third week in a row. The only negative indicator was slower growth in the M2 money supply. Bond yields held steady, and data on business failures were unavailable. Before calculation of the four-week average, the index rose to 241 from 239.4.

Leading index copyright 1994 by Center for International Business Cycle Research

## PRODUCTION INDICATORS

|                                                  | Latest week | Week ago | % Change year ago |
|--------------------------------------------------|-------------|----------|-------------------|
| STEEL (7/23) thous. of net tons                  | 1,820       | 1,874#   | -2.7              |
| TRUCKS (7/23) units                              | 114,612     | 35,277r# | 72.9              |
| RAILROADS (7/23) units                           | 102,125     | 15,109r# | 77.0              |
| ELECTRIC POWER (7/23) millions of kilowatt-hours | 71,671      | 68,753#  | 5.4               |
| CRUDE OIL REFINING (7/23) thous. of bbl./day     | 14,241      | 14,391#  | -0.2              |
| IRON (7/16) thous. of net tons                   | 17,546#     | 14,660   | 4.6               |
| STEEL (7/16) thous. of tons                      | 878.2#      | 861.1r   | 7.7               |
| COAL (7/16) thous. of tons                       | 790.0#      | 742.0r   | 1.2               |
| NATURAL GAS (7/16) millions of ft.               | 449.5#      | 343.3    | 1.3               |
| TRUCKS (7/16) billions of ton-miles              | 21.6#       | 18.5     | 2.9               |

#=American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, U.S. Petroleum Institute, Energy Dept., American Paper Institute, WWPA<sup>1</sup>, SFPA<sup>2</sup>, Association of American Railroads

## FOREIGN EXCHANGE

|                                    | Latest week | Week ago | Year ago |
|------------------------------------|-------------|----------|----------|
| U.S. DOLLAR (7/27)                 | 98          | 99       | 106      |
| WEST GERMANY MARK (7/27)           | 1.58        | 1.56     | 1.72     |
| UNITED KINGDOM POUND (7/27)        | 1.53        | 1.55     | 1.50     |
| FRANCE FRANC (7/27)                | 5.39        | 5.36     | 5.84     |
| ITALY LIRA (7/27)                  | 1.38        | 1.38     | 1.29     |
| SPAIN PESA (7/27)                  | 1.34        | 1.32     | 1.51     |
| ARGENTINA PESO (7/27) <sup>3</sup> | 3.405       | 3.403    | 3.117    |

#=Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

## COMMODITIES

|                                              | Latest week | Week ago | % Change year ago |
|----------------------------------------------|-------------|----------|-------------------|
| WHEAT (7/27) \$/bushel                       | 388.550     | 387.450  | -1.2              |
| CRAP (7/26) #1 heavy, \$/ton                 | 117.50      | 117.50   | -0.8              |
| COFFEE (7/26) index, 1967=100                | 213.9       | 213.8    | 2.5               |
| COFFEE (7/23) c/lb.                          | 118.1       | 114.6    | 30.8              |
| CUM (7/23) c/lb.                             | 73.0        | 74.0     | 31.5              |
| (7/23) #2 hard, \$/bu.                       | 3.52        | 3.47     | 7.0               |
| (7/23) strict low middling 1-1/16 in., c/lb. | 71.86       | 69.73    | 25.3              |

#=London Wednesday final setting, Chicago market, Knight-Ridder Commodity Research Metals Week, Kansas City market, Memphis market

1=Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment from Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

## LEADING INDICATORS

|                                           | Latest week | Week ago   | % Change year ago |
|-------------------------------------------|-------------|------------|-------------------|
| STOCK PRICES (7/22) S&P 500               | 453.28      | 449.54     | 1.5               |
| CORPORATE BOND YIELD, Aaa (7/22)          | 8.06%       | 8.18%      | 12.4              |
| INDUSTRIAL MATERIALS PRICES (7/22)        | 105.0       | 103.6      | 11.1              |
| BUSINESS FAILURES (7/15)                  | NA          | 284        | NA                |
| REAL ESTATE LOANS (7/13) billions         | \$432.4     | \$430.7    | 4.5               |
| MONEY SUPPLY, M2 (7/11) billions          | \$3,556.3   | \$3,555.8r | 2.1               |
| INITIAL CLAIMS, UNEMPLOYMENT (7/9) thous. | 365         | 344        | 11.3              |

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

## MONTHLY ECONOMIC INDICATORS

|                                                | Latest month | Month ago  | % Change year ago |
|------------------------------------------------|--------------|------------|-------------------|
| ORDERS FOR DURABLE GOODS: MFG. (June) billions | \$151.0      | \$149.0r   | 14.1              |
| HOUSING STARTS (June) annual rate, thous.      | 1,351        | 1,497r     | 9.1               |
| EXISTING HOME SALES (June) millions            | 3.96         | 4.11r      | 7.0               |
| BUDGET SURPLUS OR DEFICIT (-) (June) millions  | \$15,202     | -\$32,504r | 37.0              |

Sources: Commerce Dept., National Assn. of Realtors, Treasury Dept.

## MONETARY INDICATORS

|                                      | Latest week | Week ago   | % Change year ago |
|--------------------------------------|-------------|------------|-------------------|
| MONEY SUPPLY, M1 (7/11)              | \$1,150.0   | \$1,146.1r | 6.0               |
| BANKS' BUSINESS LOANS (7/13)         | 296.4       | 297.5r     | 7.8               |
| FREE RESERVES (7/20)                 | 320         | 916r       | -57.2             |
| NONFINANCIAL COMMERCIAL PAPER (7/13) | 153.3       | 154.1      | -3.0              |

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

## MONEY MARKET RATES

|                                        | Latest week | Week ago | Year ago |
|----------------------------------------|-------------|----------|----------|
| FEDERAL FUNDS (7/26)                   | 4.26%       | 4.19%    | 3.03%    |
| PRIME (7/27)                           | 7.25        | 7.25     | 6.00     |
| COMMERCIAL PAPER 3-MONTH (7/26)        | 4.72        | 4.66     | 3.22     |
| CERTIFICATES OF DEPOSIT 3-MONTH (7/27) | 4.70        | 4.60     | 3.17     |
| EURODOLLAR 3-MONTH (7/22)              | 4.64        | 4.80     | 3.15     |

Sources: Federal Reserve, First Boston





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### TREE CITY USA

 The National Arbor Day Foundation

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## QUALITY: FROM BUZZWORD TO PAYOFF

**R**are today is the chief executive who does not profess to be an enthusiastic convert to the goal of improving quality. That's a legacy from the 1980s, when foreign competition and a perception of shoddy workmanship forced Corporate America to improve reliability, customer service, and overall product quality. Manufacturers were the first to join the "total quality management," or TQM, bandwagon, but they were soon followed by banks, telephone companies, and hospitals. Even local governments have embraced quality as they try to boost "customer" satisfaction with public services.

The problem is, so many private and public organizations are pursuing quality in a hidebound way—by following the dictates of their bureaucracies and management hierarchies rather than by listening to their customers. Yet the evidence is undeniable: TQM only works when a company finds out what customers really care about. Do they want on-time performance? Personal service and some hand-holding? Or a cheaper price for a stripped-down product? The answer is not always obvious, unless companies ask customers the right questions and then painfully overhaul their operations to respond efficiently to customer demands (page 54).

Almost as distressing, some corporations have forgotten that quality improvements can only be justified if they eventually lead to the coin of the corporate realm—higher profits. To be sure, when TQM was first introduced, it was a welcome antidote to the bean-counter mentality that couldn't see past next quarter's earnings report. But these days, some managements are too willing to sacrifice profits in an obsessive pursuit of the government's Baldrige Award. Enough already. Quality needs to be delivered in the most cost-effective fashion.

That's why companies such as AT&T, Nationsbank, and Federal Express are doing the right thing by taking a critical eye to their quality programs—not to eliminate them but to make quality pay. In the end, their efforts are helping to make the quality gospel an even more potent tool for improving America's global competitiveness.

## CUT MENTAL-HEALTH CARE WITH CARE

**S**eparation of work and private lives is a traditional American ideal. Yet many employers found in the 1980s that they could not ignore the emotional or substance-abuse problems of their workers and their families without incurring big costs. That led many companies to broaden their mental-health benefits.

But while workers gained from better coverage, employers saw their mental-health-care costs explode, in part because unethical providers were able to wring the maximum pay-

ments out of the system. In self-defense, many corporations have wholeheartedly embraced managed care for mental health. The new model stresses mental-health care as a short-term response to a temporary crisis, such as depression. That's far different from the open-ended care of traditional therapy (page 66).

But now, corporations need to take a closer look at what they are managing their mental-health plans. There's the question that short-term therapy saves money. Unfortunately, managed-care companies often can have a financial incentive to limit unreasonably the length of care. Moreover, demanding quick fixes, some outfits interfere with the trusting relationship that's needed for therapy to work. And most by definition, the people who need mental-health care are grappling with problems that fill them with shame and hinder their ability to demand better treatment.

For liability reasons, as well as the benefit they get from a well-adjusted workforce, employers can't afford to be satisfied with cost-cutting alone. These systems can work if employers require that managed-care companies meet quality standards and respect employee privacy. And as Congress considers broader health reform, it should insist on mental health programs that put quality first and allow well-trained providers to give individual patients the care they need.

## NOW, LET'S TRY FREE TRADE IN THE MIDDLE EAST

**A**fter 46 years of hostility, the Israeli-Jordanian peace agreement offers welcome hope that one of the world's most troubled regions may soon enjoy a measure of normalcy. But even as the peace process gains momentum, it's time to look ahead to the next step: the creation of new economic ties that can bring prosperity to the region (page 36).

In the short run, increased tourism offers the most immediate benefits for Israel and Jordan. The Holy Land already attracts travelers of all faiths, but open borders between former enemies will make it easier for tourists to stay longer and see more. Israeli money and knowhow can help develop tourist attractions in Jordan. And peace will create enormous efficiencies in transportation, since shipments from Europe to Jordan can go directly through Israel instead of traveling a more expensive and roundabout route.

But the big economic payoff in the long run will come when Israel, Jordan, and the Palestinian proto-state are able to gradually integrate their economies. That means lowering trade barriers over time and allowing free flow of capital. Politically, that won't be easy, but the potential gains are enormous. None of the Middle East countries is a large enough market to warrant large-scale investment by multinationals. But together, they become much more attractive for foreign investment and trade.

With the long history of enmity in the region, peace cannot be taken for granted. But for the first time in decades, it looks as if the destiny of the Middle East will be determined by economics, not war.



55 WEEK  
August 16

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# BusinessWeek

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# INEQUALITY

How the growing gap between rich and poor in America is hurting the economy

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TO HAVE AND HAVE NOT: THE INCOME GAP IN THE U.S. IS GROWING, AND MANY ECONOMISTS SAY IT'S A DRAG ON PRODUCTIVITY

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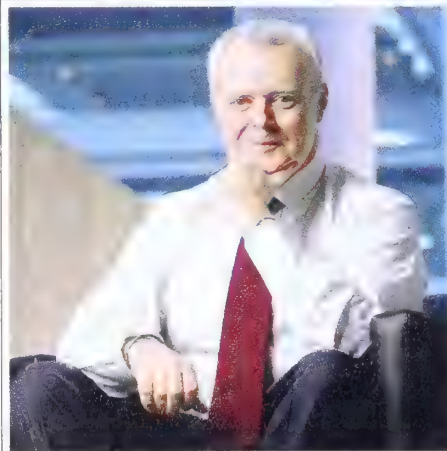
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**ARTHUR MARTINEZ PUT IT IN THE BLACK, BUT NOW HE MUST SHOW BIG-NAME APPAREL MAKERS THE NEW LOOK IS NOT JUST WINDOW DRESSING**

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You're up, baseball owners



# Up Front

TALK SHOW

Every now and again, you watch a disaster unfold and seem powerless to stop it.

—Treasury Dept. Chief of Staff Joshua L. Steiner in his controversial diary at the heart of Senate Whitewater hearings

EDITED BY JAMES E. ELLIS AND JULIE TILSNER

## GENIUS WATCH

### HARD TIMES FOR A SOOTHSAYER

**S**tock market oracle Elaine M. Garzarelli is out of one of her jobs. The shareholders of her mutual fund, the Smith Barney Shearson Sector Analysis Fund, quietly voted last month to shutter the fund by merging it into another Smith Barney portfolio. The reason, explains Smith Barney Executive Vice-President Heath B. McLendon: lackluster fund performance and an eroding asset base. (Smith Barney took over the fund when it



**GARZARELLI:** She called the crash

acquired Shearson last year, while Garzarelli remained a strategist with Lehman Brothers.)

Launched in August, 1987,

the fund had a stunning start when Garzarelli turned bearish in September and actually made money in the October crash. But it has seen lackluster returns since. Average annual return over life of fund: 4.7%, vs. 5.8% for the S&P 500. And assets, which hit \$700 million in 1988, had dwindled to \$130 million.

Garzarelli, who argues she might have logged better performance without the high fees imposed by both Shearson and Smith Barney, admits running your own fund is far different than advising others who run funds. "My work is very good, but that was not reflected in the fund," she concedes. *Jeffrey M. Laderman*

## CASHING IN

### A BIG BLUE PERIOD

**L**ike many companies, IBM boasts a corporate art collection bought over the years to enhance the work environment for employees and stockholders. It will soon enhance Blue's bottom line, instead. *BUSINESS WEEK* has learned that CEO Lou Gerstner has decided to raise cash for that vast art cache. A sign



cant number of IBM's 4,000 plus art works, valued at \$4 million, will go on the auction block at Sotheby's, beginning later this year.

IBM started collecting in the 1930s, under founder Thomas Watson Sr., when it bought about 300 works by selected American masters as Winsor Homer and Edward Hopper. And over the past 30 years the computer giant purchased contemporary paintings by such artists as Robert Motherwell and Helen Frankenthaler. Since both collections were bought years ago, the deal should yield much green for Big Blue.

Snagging the auction is a real coup for Sotheby's, which beat out archival Christie's in part because it offered inventory and manages a huge art trove. It's turning into an azure period for Sotheby's, which is about to bag another blue-blooded deal selling furniture, clothing and memorabilia from the estate of Jacqueline Kennedy Onassis. *Judith H. Dobryz*

## SHOW BIZ

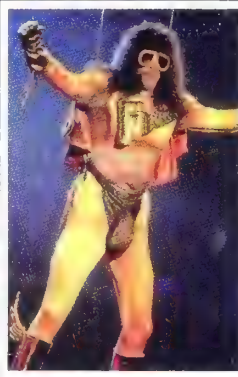
### A BREAK FOR RADIO'S BAD BOY?

**W**ill radio shockjock Howard Stern and his employer, New York-based Infinity Broadcasting, wriggle out of \$1.7 million in fines levied by the Federal Communications Commission for indecent broadcasts? Maybe, thanks to an obscure federal appeals court ruling in July.

In 1991, the FCC issued general guidelines to standardize its structure for fines. But local phone companies took the agency to court, arguing that the policy unfairly called for

them to pay larger fines than other groups.

The appeals court for the District of Columbia recently decided, however, to totally void the guidelines—on grounds that they constitute a "rule" rather than a "policy." By law, public comment must be solicited before rules can be adopted. So post-1991 fines—



**STERN:** Loophole city

including Stern's penalties—may be void.

FCC General Counsel William Kennard says the agency probably will reissue the Stern fines under pre-1991 rules. Still, Stern can hope: All five commissioners likely must vote to reissue. And three of them, including Chairman Reed E. Hundt, arrived after the initial Stern censure votes. *Mark Lewyn*

## REALITY CHECK

**A NEW SURVEY SAYS** Americans can expect record-low salary hikes this year. The Conference Board's recent analysis, which samples 515 mostly large companies in all major industries, found that employers are planning

**IN REALITY,** Americans are likely to see the best wage improvement in years, after inflation is taken into account. From 1975-93, average wages for 90 million private-sector employees lagged behind the consumer price index by more than three percentage points, according to the Bu-

average pay increases of only 4% for both this year and next. That's down from 5% to 6%

boosts a few years ago and would be the lowest since the board began tracking big-company salaries in 1975.

reau of Labor Statistics. But with inflation running at only about 2.5% so far this year, the Conference Board's 4% pay growth forecast means real wages would jump 1.5%. Americans haven't seen their purchasing power get such a boost since a 2% real-wage increase in 1986. *Aaron Bernstein*



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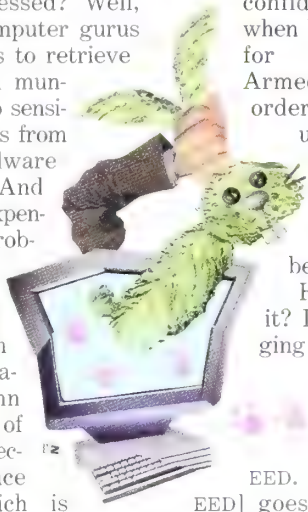


## TOTAL RECALL

### EXHIBIT A: THE TELLTALE COMPUTER TAPE

**T**hink that dishy E-mail sent to your colleague in confidence is history once the delete key is pressed? Well, think again: Computer gurus are finding ways to retrieve everything from mundane contracts to sensitive trade secrets from companies' hardware and software. And that's creating expensive litigation problems. "Electronic data is increasingly used as a weapon against companies," says John Jessen, founder of Seattle-based Electronic Evidence Discovery, which is working with lawyers on about 100 business lawsuits.

Since establishing EED six years ago, Jessen has uncov-



ered incriminating E-mail files that led to a \$250,000 settlement in a sexual discrimination suit. In another dispute, drafts of a contract were found containing a clause that EED's opponent in a case denied ever existed. More recently, EED was hired to find out whether a former employee of a client had stolen confidential records when he went to work for a competitor. Armed with a court order allowing them unlimited access, Jessen's snoops discovered 15,000 files that had been snatched.

How do they do it? In part by plugging recovered data into the library of 9,000 software programs amassed by EED. "No one [from EED] goes past a garage sale without looking for old software or hardware," says Jessen. It seems that computers, like elephants and spurned lovers, never forget. *Linda Himmelstein*

## THE BIG PICTURE

### SERVICE INFLATION WITH A SMILE

The once-stubborn inflation rate in services, minus health care, has hit the lowest level in more than a decade. The services category includes such things as dry cleaning and TV repair and accounts for half the consumer price index. A slower rise in housing costs is the major factor.



## THE FEDS

### AT LABOR, A SORRY STATE OF THE UNION

**T**he American Federation of Government Employees' Local 12, which represents 4,000 workers at the Labor Dept., was supposed to be helping the Clinton Administration reinvent government. But the union local itself is getting reinvented first. In mid-July, AFGE President John N. Sturdivant placed the local in trusteeship after a preliminary audit found evidence of lax financial management.

AFGE investigators found that funds were missing and that many checks lacked the requisite two signatures. As



## DRAWN AND QUARTERED



## EPIGRAMS

### THE WORLD ACCORDING TO GUMP

**E**ven many people who haven't seen the movie know what Forrest Gump has to say about chocolates. The true cognoscenti, however, can pick through Winston Groom's 1986 novel and his new *Gumpisms* for even more quirky quotes to live by. Our Top 10:

10) Never wear a belt and suspenders at the same time: People might think you are paranoid.

9) Beware of people that put numbers after their names.

8) Life can be one big toilet, so for all of our sakes, don't make waves.

7) Most people don't look dumb till they start talkin'.

6) Do not suck your thumb—or anyone else's for that matter.

5) Don't ever pick

a fight with somebody that really ugly lookin'.

4) Remember this: When somebody is down there kissin' your butt, they can just as easily be bitin' it.



'Most people don't look dumb till they start talkin''

—FORREST GUMP

3) If you want to be popular, do not engage in child lestin' or line dancin'.

2) Don't lick nothin' that's gonna stick to your tongue.

1) Some people, like me, were born idiots, but many more become stupider as they grow along. *Ronald Gump*

much as \$80,000 vanished or was spent improperly, the union says. Sturdivant, who made himself trustee and ousted half the local's 10 board members and officers, will hold a trusteeship hearing in September. Later, the union will decide whether to make criminal referrals.

The takeover of the local is particularly embarrassing

for the Labor Dept. The agency that's responsible for supervising the finances of unions nationwide didn't know what was going on under the nose. What's more, Labor Secretary Robert Reich worked closely with AFGE on everything from streamlining manuals for compliance officers at the Occupational Safety & Health Administration to simplifying the forms that workers use to apply for benefits. *Christina Del Valle*

## FOOTNOTES

Change, 1992 to 1993, overseas tourists in New York: down 4%. Hawaii: down 3%. California: up 1%. Nevada: up 9%

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tion. At the same time, the defendant is committed to cleanup. We increased the budget for the technologies needed to tackle the mess at the nation's nuclear weapons production facilities; many of these technologies will reduce the cost of remediation in the private sector. We can and will achieve both essential missions: clean up the worst pollution and help prevent future pollution.

Bill White  
Deputy Secretary  
Energy Dept.  
Washington

### DO YOU WANT SPANISH LABELS? DON'T NERVE!

Mexican government has outrageously disrupted common U.S. business practices, according to "NAFTA: A light for red tape" (International Business, July 25). How dare they heap bureaucratic red tape on a great American company just to get Spanish labels on products sold at Wal-Mart in Mexico.

Anyway, the next thing we'll hear is about labels on U.S. exports to Beijing that have to be written in those silly Chinese characters. Is there no relief from government regulation?

Ben Oviatt  
Atlanta

It only shows one side of the coin. Companies trying to import into the U.S. face labeling and packaging restrictions as onerous and protective as those in Mexico. California, for example, forbids selling honey in 500-gram containers. Furthermore, goods sold in the U.S. are subject to the very same type of labeling restrictions (language, lettering, etc.) which you criticize for Mexico. I'd rather ship south than

Gerhart E. Reuss  
Managing Director  
Miel Carlota  
Mexico City

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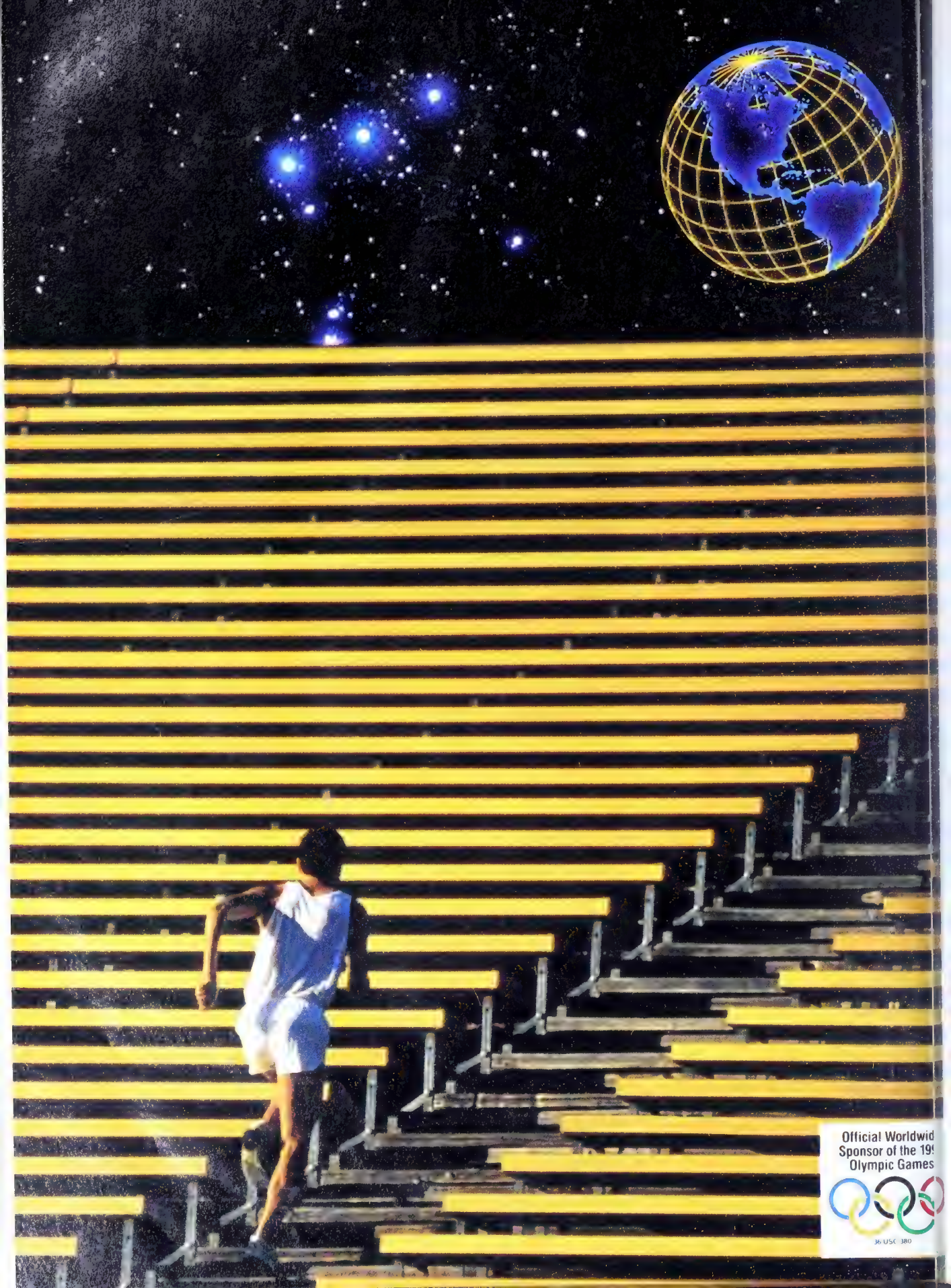
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**JUSTICE LEWIS F. POWELL JR.**

By John C. Jeffries Jr.

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## THE HIGH COURT'S MAN IN THE MIDDLE

**D**uring the racial turbulence of the 1950s and 1960s, Lewis F. Powell Jr., then a prominent corporate attorney, never repudiated the segregationist stands of his peers in Richmond, Va. He served on the city and state school boards, which were among the nation's most defiant when it came to the Supreme Court's 1954 order to desegregate. So it was hardly surprising when, in 1974, as a justice on the high court, Powell cast the deciding vote to limit the obligation of Detroit area schools to bus pupils between the black inner city and the predominantly white suburbs.

As John C. Jeffries Jr.'s engaging biography of the retired justice reveals, although Powell advocated judicial restraint—the idea that judges should be guided by legal precedent rather than political beliefs—his key decisions were as much influenced by his background as by the law. At the same time, Powell often overcame his instinctive conservatism to act as the court's consensus maker. Consequently, he played a pivotal role from his 1972 appointment until his 1987 retirement—an eventful era when the court confronted some of the most pressing social issues of our time.

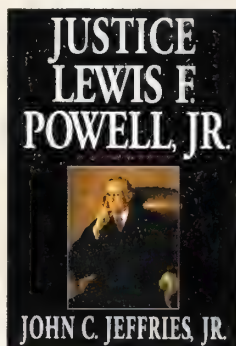
To research the book, Jeffries, a University of Virginia law professor who once clerked for Powell, pored over the jurist's private papers and interviewed him at length. The resulting hefty tome is evenly divided between Powell's life before he joined the Court at age 65 and a discussion of five controversial areas in which his votes helped change the course of the law: school desegregation, abortion, the death penalty, Presidential immunity, and affirmative action.

The first half is rich in stories that illuminate Powell's personality. Although a descendant of a Jamestown settler and the paragon of the Southern gentleman lawyer by the time he was appointed, Powell had less-than-genteel origins. His father, who ran a Richmond cigar-

box company, was strict and demanding, and Lewis hated the many chores he imposed—especially feeding and milking the cow. Decades later, his father would remark “rather more often than I thought necessary,” says Powell, that he couldn't believe his son was on the Supreme Court.

Despite his resentment, Powell never rebelled. And the habit of hard work paid off when he led his class at Washington & Lee University law school. After graduating in 1931, he married the daughter of his family doctor and joined

**D**uring an eventful era, Powell often pushed the law forward by acting as a consensus-maker



Richmond's premier law firm. He was a civic leader and president of the American Bar Assn. The one unexpectedly exciting interlude in his oh-so-proper life was his stint as a World War II intelligence officer in a top-secret project to break German military codes.

It was President Richard M. Nixon who named the Southern Democrat to the Supreme Court. Although Powell had no judicial experience, the President wanted a Southerner, and Powell was prominent in the national bar. In addition, his disdain for the increasing tolerance shown criminal defendants appealed to the President.

Jeffries depends on facts and color, rather than analysis, to describe Powell's judicial approach. It seems clear that the justice's penchant for the middle ground came from his nonconfrontational personality rather than a particular

philosophy. His favorite decision was *Regents of the University of California vs. Bakke* in 1978, when his compromise broke a deadlock. Allan Bakke, a white man who had been rejected by the University of California at Davis Medical School, alleged that the school's affirmative-action admissions program discriminated against him. When four liberal justices voted to uphold the school plan and four conservatives voted to abolish affirmative action, Powell bridged the gap. His ruling struck down the school's minority-admissions plan, letting Bakke matriculate, but upheld affirmative-action programs that didn't involve quotas. The opinion saved one of the few devices—however flawed—to accelerate racial equality.

Powell's sense of propriety may partly explain his deciding vote in 1986 to uphold a Georgia law criminalizing sodomy. Jeffries ascribes his position to a “willed ignorance” of homosexuality. Powell once remarked during a closed-door decision conference that he had never known a homosexual. Justice Harry A. Blackmun, a contemporary of Powell but a bit more hip, told his clerks afterward that he wanted to tell Powell that some of Powell's former clerks were gay—but he never did.

Years later, Powell told Jeffries he regretted the vote. Gays, he said, should be accorded the same privacy rights that a decade earlier, he had voted to grant women in *Roe vs. Wade*. Powell, Jeffries reveals, also has second thoughts about capital punishment. In 1991, he said that he would reverse all his votes upholding the death penalty because death-row appeals undermine the rule of law. Writes Jeffries: “The endless waiting, merry-go-round litigation, last-minute stays, and midnight executions offended Powell's... concept of the majesty of the law.”

The book's major flaw is its adulatory tone. While Jeffries acknowledges Powell's limitations, he seems intent on canonizing him, which actually undermines his assessment of Powell's achievement. Nonetheless, Jeffries' entertaining narrative ably captures Powell's character and conveys the wrenching nature—of lasting relevance—of the issues he helped decide.

BY CATHERINE YALOWITZ

*Yang covers legal affairs from Washington.*

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BY STEPHEN H. WILDSTROM

## ZING UP THE PERSONAL MANAGERS

When you met the new sales rep from Widgets Inc. last year, you took her card and put it in your Rolodex. But now you file it under Widgets or her name? And what was her name, anyway?

Maybe it's time for you to get a new card file—and your Rolodex—calendar—off your desktop and into your computer. Once you get past the cluttered-up name, personal information managers are products that make filing and

and bring up the background information from Cardfile.

Here's a look at three information managers for Windows: an old standby, an interesting newcomer, and a revival of a venerable favorite.

Lotus Organizer, around since 1991, owes some of its popularity to its inclusion in Lotus Development Corp.'s popular SmartSuite software package. Its calendar looks like a pocket secretary, and individual records resemble business cards. But you have

information. InfoCentral, part of WordPerfect's forthcoming PerfectOffice suite, allows you to establish all manner of "connections" among your address-book entries. You then use a graphic interface to sort the information into different hierarchies. For example, you could display a screen of all the vendors' reps you deal with, then switch views and look at all your contacts in the auto industry. But you pay a price in added complexity for this flexibility: InfoCentral sometimes makes it tough simply to find a phone number or an address. That means InfoCentral probably is not your best choice unless it's worth mastering the complicated process needed for getting information organized.

**SIMPLICITY.** Borland International's SideKick for Windows is a revival of a product that disappeared from the market for a time, having originated with the dawn of the P.C. The new version really only shares the name and general function of the original. Absent are some of the bells and whistles of the other products, but ease of use makes it a gem. It's easy enough to set up your calendar and phone list and be working within minutes of installing the program. SideKick, my personal favorite, is simple but not simpleminded, giving you considerable control over just what information is displayed for each phone-list entry.

The choice of a personal information manager is idiosyncratic, and you may well hate what I like. But when you select one, choose carefully. In fact, the programs are inexpensive enough—SideKick comes with an introductory price tag of \$29—that you might want to buy more than one to see which you like best. Getting started with an electronic information manager can be intimidating—imagine typing up all those file cards. But once the unpleasant chore of setting up the program is done, you'll wonder how you ever lived without one. *S.W.*

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bringing personal information on contacts and organizing your schedule much easier. You can use electronic capabilities to locate contacts by name, company, or other information.

**PRICE.** The trick is choosing a program that suits your needs. The capabilities and ease of use of the many information managers on the market vary. At the simplest, every copy of Microsoft's Windows comes with programs called Cardfile and Calendar. But you're likely to outgrow them almost immediately. Unlike more powerful programs, for example, you can't click on the face of your 10 o'clock appointment in Calendar entry

little flexibility in choosing how information is displayed.

Organizer is especially well-suited to work with other programs, especially Lotus' cc:Mail. With cc:Mail, you can use Organizer over your network to schedule meetings with other users. It also lets you set up "links" between people and events: Clicking on an appointment will automatically fetch a memo from your word processor. Unfortunately, the process of setting up these links is clumsy.

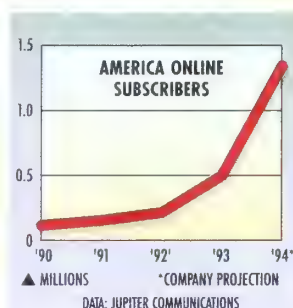
WordPerfect Corp.'s new InfoCentral is different. While its calendar is conventional, it dispenses with the card-file metaphor in favor of a free-form database of names and

## BULLETIN BOARD

### ON-LINE SERVICES

#### NEW ON THE MENU

America Online Inc. is approaching the 1 million subscriber mark, and it's getting dressed up to celebrate. The information service is giving its menu screen a spiffy new "multimedia" interface. The screens, due in August for Macintosh users and a month later for the Windows crowd, should also make it simpler



and faster to find what you want. People can click on 14 departments (up from 9), including personal finance, travel, education, and the Internet Center. Unfortunately, some of the featured services are so new that when you click on the icons for those departments, there may not be much underneath. For example, America Online still doesn't offer such Internet tools as "FTP" (for moving files around). AOL says it will eventually fill in the gaps.

### NETWORKING

#### LOTUS GROWS EXTRA ROUTES

Lotus Development Corp. is making it easier for small businesses or corporate branch offices to reach out with their electronic-mail systems. It's offering a 10-user version of its cc:Mail Router program for just \$90 (\$215 after Oct. 8). Previously, the software, which allows local area networks using cc:Mail to connect with one another over telephone lines, listed for \$1,295 for all the users on a local system.







## A Second Opinion.

Some of America's best doctors practice in Alabama. Yes, you read that correctly. But if you're skeptical, we understand. Even a man as well-educated as Dr. William Clancy, leading authority on knee ligament reconstruction and official physician of the 1994 U.S. Olympic Hockey Team, assumed Alabama was as backward as he'd seen it portrayed on television. Until he examined it more closely.

At Alabama Sports Medicine & Orthopaedic Center, Dr. Clancy has helped to rehabilitate the bodies and careers of sports luminaries from around the world. Yet five years ago, his future partner had a hard time convincing him to get on the plane. "Out-of-towners, including myself, come with the perception that Alabama is the Dukes of Hazard. But I'll tell you, that southern hospitality really knocked our socks off." Shortly after this initiation, Dr. Clancy decided to leave Wisconsin and join Dr. Jim Andrews' team at Alabama Sports Medicine in Birmingham. "It was an exciting prospect, and I was overwhelmed by the level of technical expertise available. Just look at the number of high-tech companies coming here and every one of them has absolutely universal praise for the state."

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## WARNING: A HIGHER CIGARETTE TAX MAY BE HAZARDOUS TO HEALTH FINANCING

BY GARY S. BECKER



While steeper taxes do help smokers quit, revenue won't be anywhere near what Congress predicts. Besides, why finance health coverage with a tax that hits the poor hardest?

**S**ome members of Congress advocate a massive federal tax hike on cigarettes to help defray the costs of a health-care bill. The medical profession and other opponents of smoking agree on a large tax increase, though their goal is not to raise revenue but to cut down smoking. Recent research, however, indicates that a sizable cigarette tax would not generate much tax revenue, although it would cut smoking by a lot.

These findings appear in the June issue of *The American Economic Review*, in an article by Michael Grossman, Kevin M. Murphy, and me. In it, we estimate the response of cigarette smoking in the U.S. to changes in retail price, income level, and other variables. The research can be used to obtain reliable calculations of the effects of increases in the federal cigarette excise tax on government revenue.

These calculations assume that each 25¢ increase in the tax raises retail prices by the same amount—even though various studies indicate that prices may rise by a little more than the tax increase. Higher retail prices reduce smoking mainly by discouraging some people from beginning and by encouraging others to quit earlier than they otherwise would have, although higher prices also reduce the number of packs smoked by those who continue to smoke. Teenage smoking is especially sensitive to the cost of cigarettes.

Initially, a higher price for a pack of cigarettes does not cut smoking by a lot, since many smokers cannot quickly break the habit. But the impact is cumulative as each reduction in smoking further weakens the habit and encourages additional reductions. Indeed, our article estimates that the impact of a rise in price is about twice as large after the price has been in effect for a year: After one year, a 10% increase in price cuts smoking by about 4%, but after three years the reduction doubles to about 8%.

**HOOKED POLITICIANS.** The present 24¢ federal tax on a pack of cigarettes yields about \$6 billion annually in federal revenue. The estimates of demand in our article imply that to reach maximum revenue in the long run would require a tax revenue of about 95¢ a pack and would raise only \$6 billion annually more than the present tax. Note that somewhat larger tax revenues would be raised during the years it takes smokers to fully adjust to the higher price.

This estimate of tax revenue is much lower than that of the Congressional Budget Office because, in sharp contrast to our estimate of an 8% reduction in smoking per 10% increase in price, the CBO assumes that smoking falls at

a constant rate, by about 4% for each 10% crease in the cost of a pack.

Some members of Congress are proposing still larger increase of \$1 a pack to raise total federal tax to \$1.24. That tax, in long run, would raise only \$9 billion in annual revenue—a mere \$3 billion more than at present—but would cut smoking by more than 70%. Tax revenue rises and smoking falls the total federal tax is increased to 95%, according to our estimates, but both smoking and tax revenue fall as the tax is made larger.

The conflict between tax revenue and consumption reduction may seriously affect government policies toward smoking. If the feds get hooked on the revenue generated by smoking taxes, Congress may hesitate to impose severe regulatory restrictions on smoking. State lotteries provide a telling warning how this pressure works: Despite the considerable moral and other opposition to gambling and even though lotteries are actually very bad bets, many states advertise extensively to the poor and others to encourage the purchase of lottery tickets.

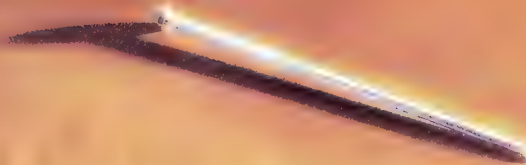
**BOOTLEGGERS'S BOOTY.** Smuggling of cigarettes from neighbor nations would reduce further the federal revenue generated by a tax hike. Canada recently was forced to reduce its draconian \$2.69-per-pack cigarette tax to \$1.82 because of massive smuggling from the U.S. A large U.S. tax hike would spur smuggling from Mexico and other Latin American nations with much lower taxes and would legally divert some cigarettes meant for export to domestic use.

Cigarette taxes fall largely on the poor since the heaviest smokers are in the lowest income and education brackets. Some smokers would be discouraged from starting if the cost of a pack rose from \$1.80 to \$2.80 with a 10¢ per-pack tax increase. But those who could break the habit and continued to smoke, at 1½ packs a day would pay \$1,533 a year in cigarette taxes, a large amount for people on welfare and those with modest incomes. It makes little sense to help finance the increased cost of the President's health plan partly with a tax that falls mainly on the poor and less educated—groups that are supposed to be helped by his health reforms.

The case for much higher cigarette taxes is very shaky in light of the regressive nature of the tax, the limited amount of revenue that would be generated, the encouragement of cross-border smuggling, and the temptation that it would pose to the federal government to encourage smoking in order to raise revenue.

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

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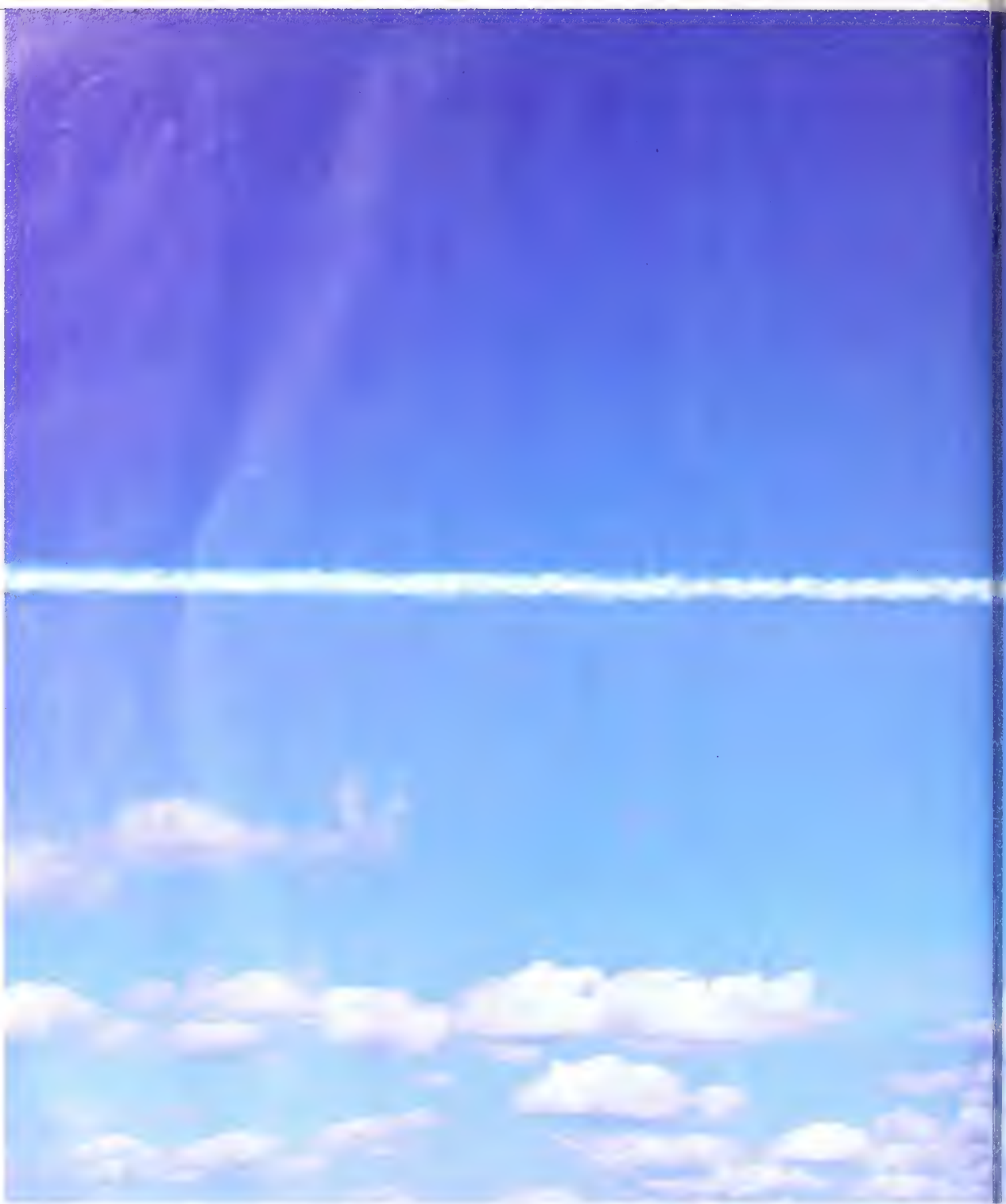


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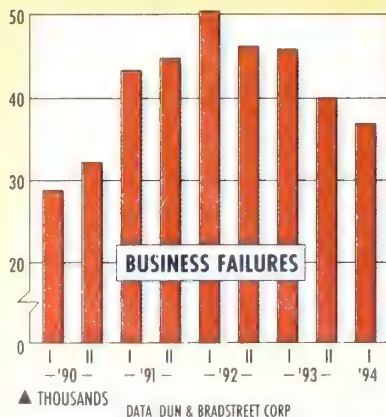
BY GENE KORETZ

## AMERICAN BUSINESS IS LOSING ITS FEAR OF FAILING

**B**usinesspeople blow hot and cold about the economic outlook, but if you really want to know how they feel, watch what entrepreneurs and companies do—not what they say. And what they're doing these days, says economist Maury N. Harris of PaineWebber Inc., points to "rising confidence."

Second-quarter earnings were far better than expected, says Harris, and capital spending is roaring ahead—as June's big jump in nondefense capital-goods orders and last quarter's 10% growth pace in business investment attest. More important, investment at the margin, in new enterprises, is taking off.

## FEWER U.S. BUSINESSES ARE THROWING IN THE TOWEL



The Commerce Dept.'s index of net business formation, classified as a leading economic indicator, has been rising sharply this year and at last count was at its highest level since 1980. Contributing to this entrepreneurial surge, observes Harris, are the freeing up of managerial talent by corporate downsizing, greater credit availability, and a pronounced decline in business failures.

The drop in businesses closing their doors is particularly impressive. According to Dun & Bradstreet Corp., just 36,775 businesses failed in the first six months of 1994—down 20% from last year and the lowest total for a six-month period since the last half of 1990 (chart).

This improvement occurred in all business sectors, and drops of at least 25% were posted by major industries such as mining, agriculture, manufacturing, construction, finance, insurance, and real

estate. Failures were also down significantly in all regions of the nation, including the Northeast and California.

What's more, the dollar value of liabilities plunged 46%, from \$24 billion in the first half of last year to just \$13 billion. Indeed, average liabilities left per failure came in at just \$350,000, the smallest amount since the 1970s.

Such numbers hearten entrepreneurs and bank loan officers. "It's significant," says Harris, "that surveys indicate that banks are continuing to ease their lending standards for small business in spite of rising interest rates."

## FOREIGN CAPITAL IS STREAMING INTO ASIAN MARKETS

**A**fter the stock markets of Asian developing nations underwent a sharp correction earlier this year, the flow of foreign money to these markets slackened. But the flow of foreign direct investment to the region continues to accelerate, observes economist Joseph Quinlan of Dean Witter Reynolds Inc.

Quinlan notes that foreign investment approvals in the first half of 1994 were up 49% in Taiwan, to \$640 million. Approved manufacturing projects in Malaysia more than doubled, to \$3.9 billion. Indonesia posted a 23% increase, to \$5.3 billion. Thailand approved nearly \$5 billion through April, more than in all of 1993. And China's foreign investment commitments in the first half rose 55%, to an eye-popping \$14.7 billion.

Much of this capital is coming from investors in the U.S., Europe, and, particularly, Japan, whose manufacturers are now targeting China as their No. 1 investment location in developing Asia. "The day when Japanese technology and capital merge with China's massive labor pool and abundant natural resources has arrived," says Quinlan.

## PROFIT-SHARING GOOSEES PRODUCTIVITY—FOR A WHILE

**A** number of studies by economists tell the same inspiring story: Other things being equal, companies with profit-sharing plans for their employees tend to have higher labor productivity than those without such plans. But is profit-sharing itself responsible for this effect, or does it occur because enlightened companies with good employee relations often have profit-sharing schemes?

To throw light on the issue, economist Douglas L. Kruse of Rutgers University drew on a survey of some 100 companies to assess productivity growth before and after the adoption of profit-sharing plans. He found that implementing profit-sharing was associated with a significant 4% to 5% rise in productivity, within a year of such action, though productivity growth in subsequent years was unaffected.

In line with the presumed incentive effects of profit-sharing arrangements, Kruse found that companies making payments in cash rather than via deferred compensation had the strongest productivity gains, particularly smaller concerns. So did companies with highly generous profit-sharing plans. But as many as a third of those adopting profit-sharing experienced no unusual productivity rise at all.

In sum, many—but far from all—companies that set up profit-sharing schemes seem to enjoy a modest one-time productivity gain.

## THOSE MORTGAGE NUMBERS AREN'T AS UGLY AS THEY LOOK

**J**udging by the weekly index of mortgage applications for home purchases compiled by the Mortgage Bankers Assn., the housing market is about to fall out of bed. At last count, the index was down 24% from its February high. And since mid-June, it has been running below year-earlier levels for the first time since a brief three-week period in 1992. Indeed, new home sales in June fell 8% below June 1993, though sales of existing homes were up 7%.

Don't panic, advises economist David Cohen of MMS International. He notes that the rebound in interest rates has boosted demand for adjustable-rate mortgages (ARMs), whose share of loans for single-family home purchases hit 30% in May, compared with 20% a year ago.

This trend, says Cohen, suggests that mortgage bankers, who are geared to originating fixed-rate loans for repackaging into mortgage-backed securities, are losing business to commercial banks and savings and loans. The latter institutions are more comfortable originating ARMs, often for their own portfolios. In fact, ARMs represented 65% of S&L originations in May, compared with 20% of mortgage bankers.

The upshot, says Cohen, is that the drop in the mortgage bankers' index probably exaggerates the development weakness in the housing market.



## HIS EXPANSION HAS SLOWED AND A SUMMER STROLL

The inflation-mongers had to give it a rest after the Commerce Dept.'s decidedly temperate estimate of the economy's growth rate last quarter. Even the market, ever vigilant against the slightest hint of pressures, backed off. After the news broke on May 29, bonds staged their biggest one-day rally since May, pushing the yield on the benchmark 30-year Treasury bond to 7.39%, from 7.55% the day before.

More important, much of the latest data are forcing the markets to rethink the economy's strength. Not only was growth in the first half more moderate than many had feared, but signs of an even slower second half, ranging from shaky consumer spending to weakening construction activity to stagnant leading indicators, continue to crop up.

Such a reevaluation could have rather positive impact on long-term interest rates, while it's not likely to prevent another widely expected hike in short rates by the Federal Reserve in mid-August, a cooler economy could put further tightening on hold into 1995.

Even the Fed acknowledged some slowing in its Aug. 3 survey of regional economies that was prepared for its July 16 policy meeting. The report noted that business activity remained generally solid but also pointed to "scattered indications of some slowing or slight declines" in some regions.

**CONSUMERS** The economy's real gross domestic product grew at an annual rate of 3.7% in the second quarter, following a 3.3% pace in the first quarter, revised down from 3.4%. The government's revisions, which went back to 1991, have been generally downward, but they were unusually small. Last quarter's growth was a bit less than the general expectation and well below the 4%-to-5% reading that some securities firms had their trading desks braced for. However, second-quarter growth was more important for its mix than its magnitude. Final sales of all goods and services rose a scant 1.5%, while inventories bulged (chart). Stock levels swelled by \$54 billion, the largest quarterly increase in seven years. In the past, the combination of demand that weak and inventory gains that have almost always led to a slowdown in GDP in the

subsequent quarter, as businesses cut back on ordering while they work down their stockpiles.

The numbers strongly argue that some of the inventory increase was unintended and not the product of business optimism about future sales. In fact, for two consecutive quarters now, final sales have slowed, while inventories have accumulated faster.

Moreover, the bulk of the pileup occurred at wholesalers and retailers, right where you would expect it, given the quarter's weak 1.2% advance in consumer spending. Because of the sturdy pace of job growth through June, consumers are capable of spending at a faster clip than that, but for the second half, their top speed is probably about 2½% to 3%. The savings rate is historically low, and higher interest rates are taking a toll on home buying and consumer durables.

Heading into the third quarter, retailers report only slim sales increases through the first four weeks of July compared with June, according to *Johnson Redbook Report*. That means efforts to reduce stock levels could be a plus for inflation, as stores and distributors are forced to reduce prices to move out unsold goods.

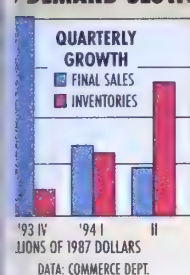
Imports, however, soared by 15.1% last quarter and must have accounted for some of the inventory bulge. To the extent that's true, the inventory adjustment will not be felt by U.S. manufacturers alone. Instead, less ordering from abroad will slow imports, a plus for GDP that will offset some of the expected slowdown in inventory growth.

### FACTORIES REPORT SOME PRICE PRESSURES

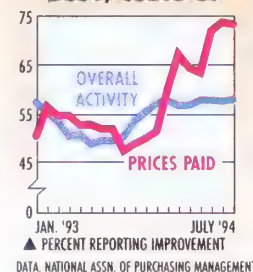
So far, U.S. manufacturers seem unaffected by the jump in wholesale and retail inventories, mainly because their own stockpiles are in excellent shape. Inventories at factories rose only 0.1% in June, while shipments increased by 0.9%, pushing the ratio of stocks to sales to a record low 1.37. However, that reading chiefly reflects manufacturers' new skill in managing their stock levels.

Factory activity in July held at its healthy, if unspectacular, level of recent months, says the National Association of Purchasing Management (chart). Its composite index of orders, output, employment, delivery times, and inventories edged up, to 57.8%, from 57.5% in June. Although the

### INVENTORIES BUILD DEMAND SLOWS



### FACTORIES: STILL BUSY, COSTS UP

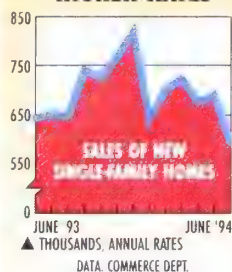




# Business Outlook

July index was the highest in seven years, it remains well below the average peak of 67.9% reached in each of the eight previous expansions since World War II.

## THE FALLOUT FROM HIGHER RATES



The purchasers continued to report increased price pressures, though these costs remain a long way from being passed on to final consumer products. NAPM's price index edged lower in July, but the breadth of increases widened, as 50% of the 300 companies surveyed reported paying higher prices for materials.

Such price hikes were primarily responsible for the 0.2% rise in the index of 11 leading indicators in June. However, that was a slim gain, and the index has made little headway in the past three months—another signal of slower growth in coming months.

## HOUSING'S GLORY DAYS MAY BE OVER

One significant area that will provide little, if any, help for the economy in the second half is the construction industry. The building sector has directly contributed 14% of the growth in GDP over the past year, even though it is only 7% of the economy. But the steady rise in mortgage rates, as well as an overhang of already-built homes, will slow construction down.

Home sales were stunningly weak in June. Demand for existing homes fell 3.6%, to an annual rate of 3.96 million, while sales of new single-family homes plunged 14.1% in the month, to a two-year low of just 591,000 (chart). All regions shared in the decline in new-home sales.

As a result, just like retailers and wholesalers, homebuilders ended last quarter carrying more inventory than they probably wanted. The supply of unsold homes jumped to 6.1 months from 4.7 months in May.

Demand is caving in to higher interest rates. Mort-

gage applications to buy a home popped up in the week ended July 22, but for the first four weeks of the month the pace of applications was way below the average of June, which was down from May.

The drag from housing is showing up in the other construction data as well. Total construction spending in June edged up just 0.2%, much lower than expectations. All the increase was in nonstructures, such as utility and telecommunications lines, in addition to government projects. Both nonresidential buildings and housing fell in June. Housing outlays fell for the first time in more than a year.

For this quarter, the extremely rainy weather in the South and East suggests that construction outlays may have fallen in July. And the latest news on contracts indicates that an outright downtrend may be starting (chart). New agreements for building projects fell 1.7% in June, according to the F.W. Dodge Div. of McGraw-Hill Inc. Residential contracts dropped a steep 10%.

## BUILDING TAKES TURN FOR THE WORSE



For the second quarter, total contracts were 14.3% below the first quarter, at an annual rate. And since contracts typically give a forward look at activity, the decline suggests a rapid slowdown in construction outlays, especially housing.

A dropoff in building will be a blow for an expansion that has increasingly counted on housing to lift growth. Indeed, residential investment has slipped in only one quarter during the three-plus years of this upturn. Housing's glory days may well be over, however. And that—along with an inventory correction and more moderate consumer spending—completes the laundry list of reasons why the economy will grow even more slowly in the second half than it did in the first.

## THE WEEK AHEAD

### PRODUCTIVITY AND COSTS

*Tuesday, Aug. 9, 10 a.m.*

Output per hour worked in the non-farm sector probably fell at an annual rate of 2% in the second quarter, after a 1.1% gain in the first quarter. Unit labor costs likely jumped by as much as a 5.5% annual rate last quarter, following a 3.9% rise in the first period. The Labor Dept. will also release revisions to the productivity data back to 1991.

### PRODUCER PRICE INDEX

*Thursday, Aug. 11, 8:30 a.m.*

Producer prices of finished goods likely rose 0.3% in July, according to the median forecast of economists surveyed

by MMS International, a division of McGraw-Hill Inc. The gain may even be larger because of the runup in crude-oil prices since the spring. Any increase in July would be the first rise in the PPI since March. Producer prices were unchanged in June.

### RETAIL SALES

*Thursday, Aug. 11, 8:30 a.m.*

Consumer spending started the third quarter at a modest pace. Retail sales probably increased by 0.4% in July, after a 0.6% advance in June. The smaller rise is suggested by the mild increase in sales at department and chain stores, calculated by *Johnson Redbook Report*.

### CONSUMER PRICE INDEX

*Friday, Aug. 12, 8:30 a.m.*

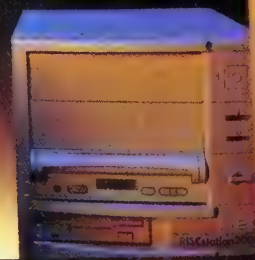
The MMS survey forecasts that consumer prices climbed 0.3% in July, the same modest rise posted in June. Excluding volatile food and energy prices, the index likely climbed 0.3% as well, the same gain posted in May and June.

### BUSINESS INVENTORIES

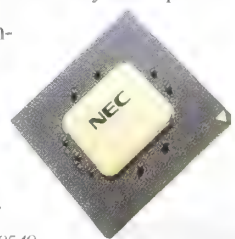
*Friday, Aug. 12, 10 a.m.*

Inventories held by manufacturers, retailers, and wholesalers likely increased 0.3% in June. That's in line with the already reported 0.1% rise in factory inventories. Business inventories jumped 1.1% in May.

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# Top of the News

To baseball fans, it's becoming as much a part of the game as fastballs and home runs. For the eighth time in two decades, the boys of summer are preparing to put down their bats and gloves and attend to the real game at hand: protecting their million-dollar salaries from owners, who claim high-priced players have turned their near-monopolies into money-losers.

Of course, a walkout on Aug. 12, the strike date chosen by the players, would be an especially bad blow to fans. In a near-storied season of long-ball sluggers and an Iron Man shortstop who just played his 2,000th straight game, a rash of records are teetering. And once-woebegone clubs such as the Cleveland Indians suddenly are in the midst of pennant races.

Can all this suspense really end while men in pinstriped business suits with slight paunches haggle over salary caps? Probably. Although negotiators representing the 28 team owners and their players have been huddling in New York in a last attempt to avert a strike, the likelihood looms that stadiums soon will be empty. "We're going to lose the World Series this year," laments Atlanta Braves owner Ted Turner. "If there's going to be a strike, it'll be a long one."

**STANDING FAST.** Certainly, the rhetoric sounds serious. Baseball's owners claim that a fourfold increase in player salaries since 1984 has created a competitive imbalance between rich big-city teams such as the New York Yankees, with fat regional television markets to tap, and small-city teams such as the Indians, which have few local revenue opportunities (page 28). Sliding revenues, mostly from less lucrative national TV contracts, have helped make at least 19 of the 28 teams unprofitable, owners claim. So they're pressing for a salary cap that would split total league revenues 50-50 with players. However, players now receive 58% of revenues. The upshot: The proposal would slow salary growth for most team members.

Players, armed with a \$175 million strike fund, have countered with demands of their own. They want minimum salaries jacked up to \$200,000 from \$109,000. They also want to cut the years of service needed to take a salary dispute to binding arbitration. And if it takes a strike to get what they want, the players seem solid. "It's something we have to do," says Cleveland first baseman Paul Sorrento. "From the players' point of view, we're willing to sit out as long as it takes."

The owners' central argument: The clubs' payroll disparities distort the game. It's nothing for the Yankees, with

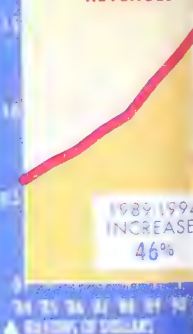
## LABOR



### DISPUTED CALL: PLAYERS DON'T BUY OWNERS' DEMANDS FOR PAY RELIEF



#### TOTAL LEAGUE REVENUES





AUGUST 15, 1994

# TE-E-E-RIKE?

AS A STIRRING SEASON NEARS ITS CLIMAX,  
A WALKOUT SEEMS EVER MORE POSSIBLE



## SALARY CAP

**OWNERS:** Balance club payrolls by capping player salaries at 50% of total league revenues, from 58% today

**PLAYERS:** Retain the current system, which allows players to become free agents after six years and sell their services to the highest-bidding team

## REVENUE SHARING

**OWNERS:** Very limited sharing of big-city teams' local television and radio income with small market clubs

**PLAYERS:** In lieu of salary caps, players want owners to pool and then share all local television and radio income, thereby evening out disparities among clubs

local TV and cable contracts that bring in some \$50 million annually, to plunk down \$46 million on salaries, as they have this year, and still make money. But the Pittsburgh Pirates, who lack millions of fans or a big local television contract, say they're losing \$1 million a month even after slashing their payroll to \$25 million. "We don't have a viable economic sport unless we have sharing of revenue" between owners and players, argues Richard Ravitch, the teams' chief labor negotiator. "If you're a shareholder in the Yankees or [Chicago] White Sox, why would you give money away without getting something in return?"

Unfortunately for the owners, they've been arguing for a salary cap for years without persuading players—or many experts. For instance, there's no correlation between city size and cumulative win-loss records from 1961 to 1987, according to *The Business of Major League Baseball*, a 1989 book by University of Texas management professor Gerald W. Scully. And the free-agent system, begun in 1977, hasn't changed anything. In fact, "if you look at championships, the big teams won twice as often before free agency," says Scully.

**HIDDEN PROFITS?** The players' union, not surprisingly, doesn't buy the owners' arguments, either. Donald M. Fehr, the union's chief negotiator, points out that the value of a baseball franchise has skyrocketed, despite the alleged losses. Attorney Peter Angelos paid a staggering \$174 million for the Baltimore Orioles last year, more than double what financier Eli Jacobs paid in 1989. And in California, two buyers have bid on a San Diego Padres team that has dumped most of its marquee players.

Besides, salaries only soar when owners bid them up, say players. It was the owners, after all, who signed the likes of Barry Bonds and Frank Thomas to mind-boggling contracts. "I don't recall going in there with a gun and telling them I was going to shoot up the place if I didn't get what we were asking," recalls San Diego agent Tony Attanasio, who cut a \$22.5 million, four-year deal in 1993 for Toronto Blue Jays outfielder John Olerud.

Few experts buy the teams' poverty claims, either. Many believe that owners hide baseball profits by shifting them to other companies they own. For instance, large media companies such as Turner's broadcasting empire or Tribune Co., which owns the Chicago Cubs, make money from baseball broadcasting that doesn't show up on their team's balance sheet, experts figure. Others, such as St. Louis Cardinals owner and brewer Anheuser-Busch Cos., promote



their other products at the ballpark. In fact, only two or three teams may actually be losing money, says Andrew Zimbalist, a Smith College economist who wrote *Baseball and Billions*. "The game is in fine shape," he says.

What do players suggest? If disparities are dragging down some teams, the rich owners—not players—should help them out, argues Fehr. He suggests that Major League Baseball share more local revenue among large- and small-market clubs. The owners have agreed to adopt a modest revenue-sharing plan. But that won't by itself solve the disparity problem, says Ravitch.

Given how far apart the two sides are, a walkout could well last the rest of the season. The owners probably won't win unless they hold out to the end, when the current labor pact expires. Only then could they impose a salary cap. But enraged players might continue striking into next season.

For now, fans are left wondering if they'll get a chance to see whether San Francisco Giants slugger Matt Williams can break Roger Maris' record of 61 homers in a season or if the White Sox's Thomas will win baseball's Triple Crown. As the strike date neared, there were some good signs: Ted Turner asked for

outside arbitration, and White Sox owner Jerry Reinsdorf opined that he wasn't sure about a salary cap after all.

Even Labor Secretary Robert Reich got into the act, explaining that for the good of the economy—and for two young sons, who love the game—would help if both sides wanted. Maybe that's what the sport needs: someone who cares more about the game played on the field than the one they're playing at the bargaining table.

*By Ronald Grover in Los Angeles and Aaron Bernstein in New York, with Zachary Schiller in Cleveland and bureau reports*

## ... BUT THERE IS NO JOY IN CLEVELAND

**N**o professional baseball franchise has defined futility as well as the Cleveland Indians. On opening day several years ago, cynical attendees walked around Cleveland Stadium carrying a sign: "Wait Till Next Year."

Now, though, for the first time in 35 years, the Indians have a shot at winning their division. Are Cleveland fans elated? Not with a players' strike looming. "It's the ultimate bummer," says

shopping-mall developer who bought the club in 1986 for about \$35 million.

Players argue that the Indians' success shows that small-market cities can do just fine without the salary cap that owners want. "If they can manage correctly like in Cleveland... [owners] can put a competitive team on the field and make money doing it," says Indians pitcher and team union representative Charles Nagy. Team management counters that the Tribe won't

young players to multiyear contracts.

The moves paid off. Jacobs' salaries remain relatively low, at \$28 million vs. \$52.1 million for the major league-topping Atlanta Braves. Nonetheless the team is in contention for the American League Central Division lead. And with so many key players locked in long-term deals, the Indians should be competitive for years to come.

How about the club's coffers? Without a strike, attendance is likely to hit



**AT JACOBS FIELD: ATTENDANCE IS UP, AS ARE REVENUES**

a record 3.1 million this year. The club should haul in \$34 million from ticket sales, enough to meet its player payroll. The Indians' new stadium, Jacobs Field, has a lot to do with the team's fiscal turnaround. A county tax on tobacco and alcohol helped finance the \$171 million

native Clevelander Janice L. Eaton, 42, who was 2 the last time the Indians made it to the World Series.

It's a bummer, too, for the Indians' owner. Fans have been flocking to the team's brand-new, 42,800-seat downtown stadium: The club logged its 27th straight sellout on Aug. 3. Better yet, swelling attendance, combined with some shrewd fiscal management, has vastly improved the Tribe's financial performance. The club isn't making figures available, but after years of losses, it expects to end this year in the black—if there's no strike. And the once-ailing team is probably worth over \$100 million today, a welcome improvement for Richard E. Jacobs, 69, the

make much even without a strike and won't be able to compete long-term with better-funded franchises. "We have to pay New York prices for the players, but we don't have New York revenues," says E. Dennis Lehman, executive vice-president of business operations for the team.

**FAT COFFERS.** The Indians don't pay New York prices for many players. Indeed, Jacobs has insisted for years that his club can't afford to pay players the salaries that are offered by big-city teams reaping millions from lucrative local television contracts. Instead, he slashed the team's payroll to a major-league low of \$9 million in 1992. Meanwhile, Jacobs signed promising

ballpark. Besides helping to draw fans, the downtown park gives the club a bigger slice of revenues, including at least \$1.5 million annually in stadium advertising revenue, vs. the \$25,000 that management made at the old baseball park. Indians' management notes, though, that its costs are up substantially, too, since they run the stadium.

But a strike could cause Jacobs to finish another year in the red. And if the Indians' players could lose the chance at a pennant. Neither prospect has made either side any less resolute about a walkout. Oh, well. Wait till next year.

*By Zachary Schiller in Cleveland*



# BIG PILL TO SWALLOW AMERICAN HOME

\$8.5 billion bid for Cyanamid reflects drugmakers' fears of going it alone

Around American Home Products Corp.'s headquarters, CEO John R. Stafford is known as someone of a tightwad. Former colleagues he charts the performance of senior managers and awards the bonuses perilly. He insists on signing off on out-as small as \$5,000. And yet this imonious lawyer is throwing caution to the winds: On Aug. 2, he offered a breathtaking \$8.5 billion in cash for American Cyanamid Co., a money-

has a problem with shrinking medical sales, boasts no blockbuster drugs either, and it has little in its research and development pipeline that seems to promise big returns. Overall, Cyanamid lost \$1.1 billion last year on sales of \$4.2 billion, mainly because of write-offs for restructuring. If the takeover comes off—and some analysts are predicting it will spark a bidding war—independent drug analyst Hemant K. Shah argues that the two companies will simply

chemical interests and other nonmedical businesses, which bring in \$2 billion a year in sales, he would be left with an operation with annual medical revenues of \$2 billion. Add that to American Home's \$8.3 billion in sales, and the company would rank No. 4: Merck, Glaxo Holdings, and Bristol-Myers Squibb are larger. By cutting costs—perhaps taking aim especially at some \$600 million a year in R&D expenses at Cyanamid—Stafford could fatten his bottom line for the short run. "They would combine their efforts and get rid of the excesses from R&D," says Arvind Desai, an analyst at Mehta & Isaly.

**SLIM PICKINGS.** But would that be enough? Winners in the drug business will clearly need, in addition to size and innovative products, some major distribution clout—and adding Cyanamid won't help much there. Meanwhile, adding dis-



AMERICAN HOME'S LAB: NEITHER GIANT HAS MUCH IN THE WORKS

## TRYING TIMES FOR DRUGMAKERS

American Home's bid for Cyanamid could touch off a takeover wave among drug companies.

### POTENTIAL ACQUIRERS

**GLAXO HOLDINGS** Overdependent on Zantac, Glaxo needs an acquisition to juice up its \$7.6 billion in sales.

**PFIZER** Pfizer has eschewed big acquisitions. But with a mighty \$7.5 billion in sales, it might jump in.

**SMITHKLINE BEECHAM** This outfit is being hurt by competition for its Tagamet ulcer medicine. That could turn the \$9.1 billion giant into an acquirer.

### LIKELY TARGETS

**MARION MERRELL DOW** With just \$2.8 billion a year in sales, it's vulnerable.

**UPJOHN** Upjohn, with \$3.7 billion in sales, is losing the patent on most of its key drugs. New CEO John Zabriske may be forced to sell.

**WARNER-LAMBERT** This \$5.8 billion company's growth prospects have been dampened by rising generic competition.

g, midsize rival drugmaker with unimpressive prospects.

Why the sudden generosity? Stafford won't discuss his bid. But the unsolicited 10% share offer—50% more than Cyanamid's preoffer price—reflects an industry-wide fear of being left out of the consolidation wave reshaping drugmakers. Indeed, just two years ago, Stafford paid \$1 billion for 65% of biotech hotshot Genetics Institute Inc. "[Companies] that [big [and]] have not been doing anything, are starting to get nervous that they will be at a disadvantage in the marketplace," says Norman C. Selby, a consultant at McKinsey & Co.

**BOARD IS BARE?** Just why American Home has chosen Cyanamid, however, is confounding some observers on Wall Street. American Home, which has \$8.3 billion in annual revenues, is short on innovative drugs. But Cyanamid, which

"struggle together instead of separately."

Several of Cyanamid's operations are facing tough prospects. The profitability of its vaccine business, one of its more creative arms, will be under attack this fall, as the Clinton Administration boosts government purchases of vaccines. A generic-drug business is growing, but it offers only razor-thin margins because of the fierce competition it faces. And its drugs include a clutch of modest-selling cancer, antibiotic, and arthritis medicines whose sales are feeling pressure from managed-care buyers. In the over-the-counter market, Cyanamid's main asset is the Centrum vitamin line, which American Home could add to its cabinet of such aging brand names as Advil, Anacin, and Dristan.

But Stafford seems as much interested in bulking up as in anything else. If he sells off Cyanamid's agricultural-

tribulation muscle inspired Merck's \$6.6 billion purchase of Medco Containment Services last fall, SmithKline Beecham PLC's recent \$2.3 billion buyout of Diversified Pharmaceutical Services, and Eli Lilly's pending \$4 billion acquisition of the PCS unit of McKesson.

With the major distribution company targets taken, American Home may well have left itself little choice but to snap up a drugmaker such as Cyanamid. Why it didn't go for a rival with more in its product line and laboratories—say Schering-Plough Corp. or Warner-Lambert Co.—is a riddle. Of course, such prizes might cost more: Schering's market capitalization is about \$13 billion and Warner's tops \$9 billion. Stafford's fiscal caution may explain his choice of Cyanamid, but it will leave the other prizes to someone else.

By Joseph Weber in Philadelphia

JOHN S. ARBOTT



### THE BINGE IS OVER

A sudden drop in consumer buying has caught retailers by surprise

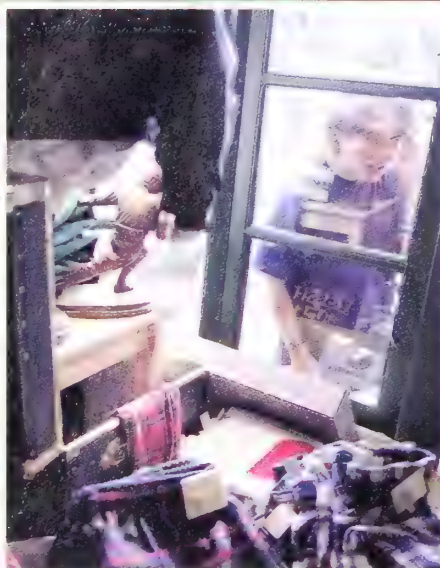
**E**arly this year, the Park family of Murray Hill, N.J., rushed to buy a house before mortgage rates shot up. Then they loaded it with a new refrigerator, television, and bedroom set. Now they're giving their depleted bank account a rest. "We can't just go out and buy whatever we want. We need to put some money on reserve," explains Sungmin Park, a Wall Street systems analyst.

He's not alone. The consumer buying binge of late 1993 and early 1994 is grinding down. Consumer spending rose just 1.2% in the second quarter, down from 4.7% in the first (chart). The sudden drop caught some retailers and wholesalers by surprise, contributing to a \$54 billion inventory buildup in the second quarter—more than double the first quarter's annual inventory rate of \$25.4 billion.

**"DEMAND IS THERE."** The big question now: Will consumers start gobbling up goods again in the second half of the year? President Clinton's advisers maintain that the inventory buildup will quickly be cut down to size by strong demand. But pessimists believe the glut will weigh heavily against economic growth. "The surge in consumer spending is behind us," notes Laurence H. Meyer, a St. Louis economist. He expects the pace of economic growth to slow from 3.7% in the second quarter to 2.5% in the third, and 3.1% in the fourth.

Still, it's hardly panic time. Second-quarter sales of motor vehicles and parts dropped nearly \$5 billion against the first quarter, to \$209 billion. But that's partly because popular car and truck models were in short supply. The Big Three auto makers are maintaining 56-day inventories of vehicles on dealer lots, well below the 60 to 65 days typical for the industry. "There don't seem to be enough cars to buy," says Daniel D. Bachman, senior economist at the WEA Group, a Bala Cynwyd (Pa.) consulting firm. "The pent-up demand is still there."

Some companies, moreover, loaded up



LATELY, SHOPPERS ARE "JUST LOOKING"

inventories on purpose—and consumers could benefit. At Compaq Computer Corp., inventories soared 57% in the second quarter as the computer maker pushed to eliminate backlogged orders. That could drive prices lower, perhaps even sparking a PC price war, notes Kimball Brown, a vice-president at Dataquest Inc.

There are some reasons for concern, though. Retail inventories soared in May, when sales ran behind expectations, and many merchants still have excess goods piled up. "You buy inventories well in advance. Even if the sales don't come, the products still do," notes V. Hollis Scott, senior vice-president of Cato Corp., a chain of 625 women's apparel stores based in Charlotte, N.C.

Consumers also are less enthusiastic than they were a few months ago. The University of Michigan at Ann Arbor's consumer confidence index dipped to 89.0 in July from a January peak of 94.7—reflecting concerns about higher interest rates. And in May, credit-card debt hit \$308 billion, or 6.3% of disposable income, up from \$268 billion, or 5.7% of disposable income, in May, 1993.

Fearing such debt, some consumers are cutting back. Denver banker Michael C. Lucchino, for one, is cleaning up his personal balance sheet so he can buy a house next year. "I'm paying cash instead of credit," he says. If the nation's Lucchinos and Parks hold to such resolves, the economy may suffer.

By Greg Burns in Chicago, with Sandra Atchison in Denver and bureau reports



### SURPRISE

**D**on't sell the steak, sell the sizzle, says the old marketing maxim. Now that markets have soured, mutual-fund marketers are working to convince investors that they've got to sell—even though their performance is more like hamburger.

Facing that challenge, the mutual-fund companies are revving up expensive marketing campaigns. Fidelity Investments has even turned to late-night television to pump its products: On July 31, the company rolled out a 30-minute infomercial, believed to be the industry's first.

Fidelity's infomercial, and rivals' TV spots, direct mailings, and other tactics so much flog hot new funds as financial education. Educational marketing is critical in keeping investors from pulling out if the market tanks—as 40% of investors surveyed in a new BUSINESS WEEK Poll think is "very" or "somewhat" likely in the next 12 months.

Some of the mutual funds' key marketing tools, moreover, are getting saturated. In Guy Moszkowski of Sanford C. Bernstein & Co. figures that nearly 90% of households with incomes of \$50,000 and up have invested in at least one mutual fund. "It's harder to find new customers; we have to develop the relationship with you already have," says Neal Litvin, executive vice-president at Fidelity Investments Co.

**QUICK HITS.** That's why most fund companies have improved shareholder newsletters by adding substantive articles with issues such as interest-rate risk and asset allocation. Fidelity's infomercial runs on such cable networks as Lifetime, the Family Channel, and the Discovery Channel, emphasizes the need to set investment goals, and diversify assets.

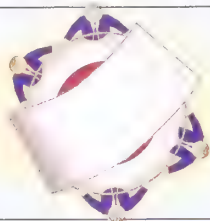
And many fundmeisters are using tactics to get quick-hit messages across the crunch. When the stock and bond markets went into a tailspin this spring, for instance, Dreyfus Corp. set up a special free line with a market-commentary chief economist Richard B. Hoey. He dashed off market-related letters stuffed them into account statements.

Are the new tactics working? Not yet. Flow to stock mutual funds slowed to \$1.4 billion in June, from \$18.4 billion in May. But it might have been much worse. Since March, investors have withdrawn \$1.4 billion more from bond mutual funds than they put in. For updates, tune in to night TV.

By Jeffrey M. Laderman in New York

# MUTUAL-FUND INVESTORS ARE STILL UPBEAT

Mutual-fund investors seem to be shrugging off the market's ominous atmosphere. Fully 94% say they're somewhat or confident that their investments are safe, only 24% say they plan to shrink their holdings. They're a pretty savvy lot, too. For most part, they know that investing comes



with risks, and they don't expect the government or anyone else to make up losses. But investors may feel less sanguine after a peek at their next quarterly statements: 65% think they've made money in mutual funds so far this year—and the way things have been going, most of them are probably wrong.

## WEIGHING THE RISK

How safe would you say each of the following investments is, how much chance is there that each of these investments could lose a lot of money? Would you say very safe, somewhat safe, not very safe, or not at all safe?

|                     | Very safe | Somewhat safe | Not very safe | Not at all safe | Not sure |
|---------------------|-----------|---------------|---------------|-----------------|----------|
| Corporate stocks    | 7%        | 58%           | 24%           | 4%              | 7%       |
| Corporate bonds     | 9%        | 61%           | 15%           | 3%              | 12%      |
| Money-market funds  | 18%       | 64%           | 8%            | 1%              | 9%       |
| Equity mutual funds | 20%       | 54%           | 9%            | 2%              | 15%      |
| Money-market funds  | 33%       | 49%           | 9%            | 2%              | 7%       |
| CDs                 | 61%       | 29%           | 5%            | 1%              | 4%       |
| Treasuries          | 66%       | 22%           | 5%            | 1%              | 6%       |

## EXPERIENCE

For how many years have you been an investor in mutual funds?  
 Under 1 year 7% 2-5 years 29% 6-10 years 30% 11+ years 34%

## INVESTMENT PREFERENCE

|                                      | Yes | No  | Not sure |
|--------------------------------------|-----|-----|----------|
| Invest in the stock funds            | 55% | 38% | 7%       |
| Invest in bond funds                 | 35% | 58% | 7%       |
| Invest in money-market funds         | 46% | 49% | 5%       |
| Invest in mixed stock-and-bond funds | 47% | 44% | 9%       |
| Invest in other                      | 11% | 82% | 7%       |

## CONFIDENCE IN MUTUAL FUNDS

|                                                                 |                      |     |
|-----------------------------------------------------------------|----------------------|-----|
| How confident are you that your investments in mutual funds are | Very confident       | 35% |
| Investments in mutual funds are                                 | Somewhat confident   | 59% |
| Investments in mutual funds are                                 | Not very confident   | 5%  |
| Investments in mutual funds are                                 | Not at all confident | 1%  |
| Investments in mutual funds are                                 | Not sure             | 0%  |

## INVESTMENT PLANS

|                                  |                      |     |
|----------------------------------|----------------------|-----|
| Over the next six months, do you | Invest a lot more    | 3%  |
| Over the next six months, do you | Invest somewhat more | 29% |
| Over the next six months, do you | Reduce somewhat      | 18% |
| Over the next six months, do you | Reduce a lot         | 6%  |
| Over the next six months, do you | Stay the same        | 40% |
| Over the next six months, do you | Not sure             | 4%  |

## RECENT ACTIONS

|                                                                                                                                                                         |          |     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----|
| Have you switched from one fund to another or taken money out of a fund at any time over the last six months because you were concerned about the safety of your money? | Yes      | 10% |
| Have you switched from one fund to another or taken money out of a fund at any time over the last six months because you were concerned about the safety of your money? | No       | 90% |
| Have you switched from one fund to another or taken money out of a fund at any time over the last six months because you were concerned about the safety of your money? | Not sure | 0%  |

## PERCEPTIONS OF A CRASH

|                                                                                                                                                                          |                   |     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----|
| Over the next 12 months, how likely do you rate the chance of another big crash in the stock market—very likely, somewhat likely, not very likely, or not likely at all? | Very likely       | 6%  |
| Over the next 12 months, how likely do you rate the chance of another big crash in the stock market—very likely, somewhat likely, not very likely, or not likely at all? | Somewhat likely   | 34% |
| Over the next 12 months, how likely do you rate the chance of another big crash in the stock market—very likely, somewhat likely, not very likely, or not likely at all? | Not very likely   | 48% |
| Over the next 12 months, how likely do you rate the chance of another big crash in the stock market—very likely, somewhat likely, not very likely, or not likely at all? | Not likely at all | 9%  |
| Over the next 12 months, how likely do you rate the chance of another big crash in the stock market—very likely, somewhat likely, not very likely, or not likely at all? | Not sure          | 3%  |

## SKETCHY KNOWLEDGE

|                                                                                                   |                |     |
|---------------------------------------------------------------------------------------------------|----------------|-----|
| How good an idea do you think you have of what kind of securities your mutual fund can invest in? | A good idea    | 25% |
| How good an idea do you think you have of what kind of securities your mutual fund can invest in? | A fair idea    | 49% |
| How good an idea do you think you have of what kind of securities your mutual fund can invest in? | No idea at all | 25% |
| How good an idea do you think you have of what kind of securities your mutual fund can invest in? | Not sure       | 1%  |

## FIXING THE BLAME

|                                                                   |                                             |     |
|-------------------------------------------------------------------|---------------------------------------------|-----|
| If a mutual fund you've invested in loses money, who is to blame? | The mutual-fund portfolio manager           | 16% |
| If a mutual fund you've invested in loses money, who is to blame? | The salesperson who sold you the fund       | 4%  |
| If a mutual fund you've invested in loses money, who is to blame? | You, for selecting the fund                 | 17% |
| If a mutual fund you've invested in loses money, who is to blame? | No one—that's one of the risks of investing | 60% |
| If a mutual fund you've invested in loses money, who is to blame? | Not sure                                    | 2%  |
| If a mutual fund you've invested in loses money, who is to blame? | Other                                       | 1%  |

## TAKING RESPONSIBILITY

|                                                |                                                        |     |
|------------------------------------------------|--------------------------------------------------------|-----|
| If your mutual fund loses money, do you think: | The fund management company should make up losses      | 10% |
| If your mutual fund loses money, do you think: | The person who sold you the fund should make up losses | 2%  |
| If your mutual fund loses money, do you think: | The U.S. government should make up losses              | 6%  |
| If your mutual fund loses money, do you think: | No one should make up losses                           | 80% |
| If your mutual fund loses money, do you think: | Not sure                                               | 2%  |

## REPORT CARD

|                                                                                                |            |     |
|------------------------------------------------------------------------------------------------|------------|-----|
| Looking at all your mutual-fund holdings, have they made or lost money for you so far in 1994? | Made money | 65% |
| Looking at all your mutual-fund holdings, have they made or lost money for you so far in 1994? | Lost money | 20% |
| Looking at all your mutual-fund holdings, have they made or lost money for you so far in 1994? | About even | 10% |
| Looking at all your mutual-fund holdings, have they made or lost money for you so far in 1994? | Don't know | 5%  |

## NEWS ABOUT DERIVATIVES

|                                                                                                                                                                      |                                |     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-----|
| Have you seen, heard, or read anything about mutual funds that have lost money because of their investments in sophisticated instruments called derivatives, or not? | Seen, heard, or read about     | 20% |
| Have you seen, heard, or read anything about mutual funds that have lost money because of their investments in sophisticated instruments called derivatives, or not? | Not seen, heard, or read about | 78% |
| Have you seen, heard, or read anything about mutual funds that have lost money because of their investments in sophisticated instruments called derivatives, or not? | Not sure                       | 2%  |

## LITTLE IMPACT

|                                                                                                                                                    |          |     |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----|
| (For respondents aware of derivatives) As far as you know, do any of the funds you own invest in futures, options, or other so-called derivatives? | Yes      | 22% |
| (For respondents aware of derivatives) As far as you know, do any of the funds you own invest in futures, options, or other so-called derivatives? | No       | 69% |
| (For respondents aware of derivatives) As far as you know, do any of the funds you own invest in futures, options, or other so-called derivatives? | Not sure | 9%  |

## THE GOVERNMENT FACTOR

|                                                                                                                                     |          |     |
|-------------------------------------------------------------------------------------------------------------------------------------|----------|-----|
| (For respondents aware of derivatives) Do you think that the government should prohibit mutual funds from investing in derivatives? | Yes      | 22% |
| (For respondents aware of derivatives) Do you think that the government should prohibit mutual funds from investing in derivatives? | No       | 65% |
| (For respondents aware of derivatives) Do you think that the government should prohibit mutual funds from investing in derivatives? | Not sure | 13% |

Edited by Mark N. Vamos and Michele Galen

Survey of 529 mutual-fund investors conducted July 29–Aug. 1, 1994 for BUSINESS WEEK by Louis Harris & Associates Inc. Results should be accurate to within 4.3 percentage points.



AIRLINES

## DOGFIGHT OVER CALIFORNIA

It's United vs. Southwest, but other carriers may get hurt, too

**S**outhwest Airlines Co. CEO Herbert D. Kelleher doesn't seem like a man who is bracing for war. Soon after United Airlines Inc. announced detailed plans on July 28 for its low-fare West Coast shuttle—to compete directly with Southwest on at least eight routes—Kelleher is his usual irreverent self. How does he really feel about United's "declaration of war," as he calls it? With gleeful laughter, he responds with an obscene gesture.

Kelleher can afford to laugh—for now. His airline still boasts the lowest costs among the industry's major carriers and commands a 50% share of the lucrative intra-California air-travel market. But even he concedes that the West Coast showdown is no joke. This is United's first attempt at proving that concessions won as part of an employee buyout will make the carrier competitive with any rival. For scrappy Southwest, it's a fight to keep United—and other Southwest wannabes—out of its short-haul niche. United's move, says Kelleher, "falls into the category of a frontal assault."

Strong rhetoric, but what are Kelleher's battle plans? Probably fare cuts, he hints, as well as new Southwest flights on both short- and long-haul routes. The moves are designed to drain revenue from United when it starts its shuttle in October and later expands to Chicago's Midway Airport.

**MORE SEATS.** To beef up for the fight, Southwest has oral agreements to lease two additional planes this year and is looking for two more. Even without these additions, Southwest will have boosted its fleet by 40 planes, to 197, and pumped up capacity by nearly 30% this year, partly by acquiring Morris Air Corp. in December, 1993 (chart).

Despite their size differences—Southwest's \$2.3 billion in revenue last year was just 16% of United's—most observers give Southwest the edge in this battle. After all, the airline has honed its short-haul, high-frequency formula for



PILOT HANDLING BAGS: SOUTHWEST HAS 23 YEARS OF LOW-COST EXPERIENCE

23 years. "Taking on Southwest head to head is unwise for anyone," says A. Maurice Myers, president of America West Airlines Inc.

But United insists it can challenge Southwest in the Golden State. After all, its hub in San Francisco and strong brand name in California, where Southwest drove it out of many markets several years ago, make the state a logical starting point. "People want to fly us because they can consolidate their [frequent-flier] miles and get better service," says Rakesh Gangwal, United's senior vice-president for planning. And United aims to lure travellers with amenities not available on no-frills Southwest, including first-class sections and assigned seating.

To succeed, United must narrow the cost gap with Southwest. United is aiming for costs of 7.4¢ per available seat-mile on the shuttle, close to Southwest's 7.2¢ and 30% less than United's short-haul costs before the buyout. Wage concessions from employees, who recently swapped \$4.9 billion in cuts for 55% of the carrier, may get the airline

close to its target. Argues Gangwal: "Now that we're cost-competitive, we're back in the game." But in the end, many predict, Southwest's more frequent flights and even lower costs will beat United's perks.

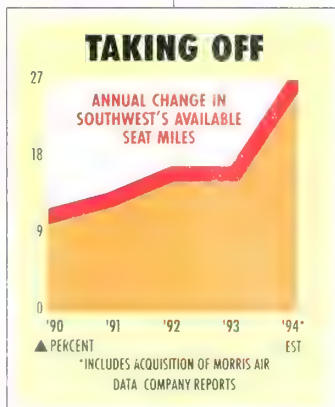
Maybe so. But United's shuttle is sure to woo some Southwest passengers. And the struggle for market share could

crimp Southwest's earnings if fare war break out. Samuel C. Buttrick of Kidder Peabody & Co. notes that intra-California flying accounts for less than 15% of Southwest's total. But he expects Southwest's earnings growth to slow to 2% for the next few years—still healthy, at less than the 39% jump, to \$215 million, forecast for 1994.

**CLOSE TO HOME.** Kelleher vows he won't lose his focus on Southwest's short-haul niche, despite his hints that he may challenge United on some longer routes. Even if the airline steps up flying routes of 750 miles or more, now 10% to 20% of Southwest's system, such flights would remain "supplemental," says Kelleher, and might grow at most to 30% of Southwest's flights. And the carrier would likely look for routes that don't involve head-to-head combat with United's hubs in Chicago, San Francisco and Denver.

After the dust settles, even Kelleher concedes that Southwest and United might be able to coexist in the West. But for that to happen, he says, "you probably have to have some other carriers dropping off those routes." Indeed, the slugfest could hurt such less-wheeled rivals as America West, Republic Air, and USAir—whose pilots proposed on Aug. 3 that employees swap \$2.5 billion in concessions for 25% of the carrier. Myers of America West worries about United's ability to undercut competition as it enters such markets as Los Angeles-Las Vegas. "Excess capacity is always a problem," he says. If Kelleher has his way, that problem won't be solved.

By Wendy Zellner in Dallas, with Michael Schine in Los Angeles and Susan Choder in Chicago





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# THESE AIRWAVES ARE HOTTER THAN ANYONE THOUGHT

PageNet's bids at the FCC auction may herald eye-popping prices next time

**T**he federal government's late July auction of new paging licenses wasn't supposed to be much more than a practice run. After all, telecommunications giants had largely dismissed the event as little more than a warm-up for the big show: a December auction of 2,000 personal communication services licenses expected to net the federal government as much as \$10 billion.

But for Paging Network Inc., the nation's No. 1 paging company, the July event was a make-or-break opportunity to buy the spectrum it needs to become a bigger player in the fiercely

competitive personal communications market. The planning for PageNet's effort began long before the first bid. In January, the company began amassing a war chest with a \$300 million debt offering to supplement a \$100 million cash hoard and a \$450 million line of credit.

After making that sort of preparation, PageNet was determined not to leave empty-handed. "We came loaded for bear," acknowledges President Terry L. Scott.

dimmed under the heavy power strain, nearly crashing the personal computers that contained the company's bidding strategies.

Once bidding began Monday morning, a PageNet official says, the company employed a "snake-in-the-grass" strategy, figure out the identity of the other bidders, who were known only by the five-digit codes the FCC had assigned them. On the sixth round of bidding on Monday, PageNet pounced. It offered \$80 million for each of the five most attractive licenses, as much as 50% above previous offers. After this preemptive strike, fully half of the 25 rival bidders folded.

**PLUNGING AHEAD.** Despite its aggressive moves at the beginning of the week, by Thursday, PageNet had fallen behind in the bidding. Investors began to worry, and the company's stock plunged \$3 a share, to \$25.50.

PageNet plunged ahead. And on Friday, after the 46th round of bidding was

completed, the company declared that PageNet had won two of the biggest licenses, having paid \$80 million for each, as well as a more restrictive license for \$37 million. McCaw Cellular Communications Inc. also snared two high-capacity licenses, paying \$80 million for each.

Some of the competitors thought PageNet and McCaw went overboard. "They overpaid by about \$30 million," sniffs one rival. But PageNet figures the price bought more than licenses: Mo-

**THE PAGENET TEAM PLOTTING IN THEIR "WAR ROOM." THEY CAME AWAY WITH TWO LICENSES FOR \$80 MILLION EACH AND A MORE RESTRICTED ONE FOR \$37 MILLION**



competitive personal communications market.

That helps explain why, when the Federal Communications Commission brought down the gavel on July 29 after five grueling days of bidding, the Plano (Tex.) company had paid \$197 million for three licenses—a full 31% of the government's \$617 million take. The windfall surprised even the federal government. Experts had expected the paging auction to raise no more than \$300 million.

**"LOADED FOR BEAR."** PageNet's bidding strategy helps explain how prices got so high—and why. The \$400 million company desperately craved extra capacity to offer higher-margin services. For instance, winning new licenses at the auc-

After three months of intense preparations, including mock auctions, PageNet sent 11 top executives to Washington's Omni Shoreham Hotel where the auction was held. Also in the party: University of Maryland game theorist Peter C. Cramton. He rose at 4 a.m. daily to revise the company's strategy for the novel auction process, in which participants used computers to bid simultaneously on the 10 licenses.

PageNet executives quickly began to wonder if their effort was hexed: On the eve of the auction, as employees outfitted a "war room" with a copier, fax machine, paper shredder, two personal computers—and even a basketball hoop to relieve stress—the room lights

utes after the auction ended, the company disclosed that it will work jointly with Motorola Inc. to launch a new service next year called VoiceNow. The venture aims to turn a paging receiver into a portable answering machine that will receive and play back messages. "This service has the potential to double the size of this company," says John Adams, analyst for Dallas-based Prudential Financial Securities Inc.

PageNet may have paid through its nose for its victories. But the paging company figures nearly any price is worth making sure it isn't left on the shoulder of the Information Highway.

*By Dean Foust and Mark Lewyn  
Washington*



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Commentary/by Owen Ullmann

## WHY ANGELL GOT CLOBBERED FOR SPEAKING OFF THE CUFF

**W**ayne D. Angell, the former Federal Reserve governor and Kansas wheat farmer, is proud of his reputation as a blunt Midwesterner who is never afraid to speak his mind—on the record. No wonder he has gotten himself into a passel of trouble. In Washington, where candor is a capital offense, Angell has committed a cardinal sin: failing to keep his head down and his mouth shut.

Now chief economist at Bear, Stearns & Co., Angell confirms that he is being investigated by the Securities & Exchange Commission. The SEC is looking into whether he violated securities laws by allegedly passing confidential Fed information to his clients on Apr. 19, less than three months after leaving the bank.

**INSIDERS.** The probe stems from a briefing Angell gave some 500 Bear Stearns clients about prospects for future interest-rate hikes. Angell said his educated guess was that 8, 9, or 10 of the 12 regional Federal Reserve banks had asked the Fed's board of governors to raise the discount rate. His guess turned out to be a tad too educated for some.

At the time, eight reserve banks had requested a discount-rate hike. Since the information is confidential, the Fed's inspector general launched an internal investigation to see if Angell had obtained or used inside information for private gain. Angell, who insists he based his estimate purely on smart analysis, believes the probe was ordered by Fed Chairman Alan Greenspan, who may have been irked by Angell's recent critiques of monetary policy in *The Wall Street Journal* and by news accounts that Angell was making as much as \$100 a minute for advising clients on interest-rate trends. Greenspan's spokesman refused to discuss Angell's theory.

Fed Inspector General Brent L. Bowen quickly cleared the former governor of any wrongdoing. Indeed, Angell says with amusement that only when Bowen interviewed him did Angell realize that

he was on the mark. "Thanks for confirming my guess," he recalls saying. Fed officials consider Angell a straight arrow and weren't surprised he was cleared. "I just assumed that Wayne was guilty of nothing else but being too indiscreet," says one ex-colleague. "You're asking for trouble when you start making guesses about sensitive information, but everyone knows Wayne yaks and things just come out."



EX-FED GOVERNOR ANGELL IS UNDER SEC SCRUTINY FOR SHARING GUESSES ON DISCOUNTRATE TRENDS

That should have been the end of the story. But then Representative Henry B. Gonzalez (D-Tex.), chairman of the House Banking Committee and a longtime critic of the Fed's secretive ways, got into the act. Gonzalez insisted that the Fed turn its report over to the SEC and pushed SEC Chairman Arthur Levitt Jr. into launching the first investigation of a former Fed governor.

Gonzalez had no new evidence to press the case. His motivation? Politics, no doubt, plays a big role: The banking chairman is a fiercely partisan populist who condemns the Fed whenever it raises interest rates, and Angell is a Republican anti-inflation hawk who spent eight years prodding the Fed toward a tight-money policy.

Angell's indiscretion also gave Gonzalez an opening to push another agenda. He wants the Fed to require employees who leave the central bank to sign a nondisclosure agreement similar to gag rules the CIA and the Pentagon impose on departing employees to protect national secrets. Greenspan rejected the idea as unnecessary, and Fed officials believe Gonzalez is making an example of Angell to put heat on the

Fed chairman. "The real issue is the gag rule, but Wayne brought this on himself by being so vocal," claims a Fed source.

**SILENCE IS GOLDEN.** The allegation against Angell is baseless. For one thing, it doesn't take a former Fed governor to guess how many Reserve banks might have requested an interest-rate hike; any shrewd Fed watcher familiar with the views of the bank presidents could come reasonably close. And why would Angell disclose confidential information in front of a large crowd? Moreover, knowing how many banks have requested a discount-rate increase is useless information for predicting what the board of governors might do. At times, it has rejected a unanimous request to change rates; at other times, it has made a rate move at the request of just a single bank.

Angell almost certainly will be exonerated by the SEC, but it could take months. Meanwhile, he would be well advised to show some discretion and follow the time-honored motto of other former Fed officials who have cashed in their monetary expertise for private-sector rewards: Silence is golden. And Gonzalez would be wise to drop the gag-rule issue. Secrets at the Fed are perishable, there already are laws against disclosing confidential information, and nondisclosure agreements are impossible to enforce. Surely the banking chairman has more important problems to deal with.

*Washington News Editor Ullmann covered Angell at the Fed.*



BY THANE PETERSON

## TIME WARNER'S STEAD: LOGAN

ne Warner is changing the guard in another of its divisions. On Aug. 3, it announced that Reginald K. Brack Jr., chairman of the magazine- and book-publishing group, has relinquished his CEO title to Don Logan. Industry executives say Logan has been amassing power at Time Inc. since Brack named him president and operating officer in 1992. Brack nursed Time back from a severe advertising recession: Ad pages in its magazines have risen 8.2% in the first half of 1994. Then again, the division also invested in satellite Communications, a

media company that is fighting for financial survival. Brack says Time Warner won't suffer "material losses" from Whittle. But executives familiar with both companies say Time Warner will probably have to write off its \$185 million investment. In mid-July, Time Warner's music group named Doug Morris its COO.

## STEELMAKERS DRIVE A HARD BARGAIN

Some steely moves by the industry are raising inflation jitters. LTV sources confirm that the company has wrested 10% price hikes on rolled steel from Chrysler for the 1995 model year—although Chrysler Chairman Robert J. Eaton says no contracts have yet been signed. Such an increase, four times as high as other recent agreements, could encourage rival suppliers to demand big hikes. Indeed, on Aug. 2, Weirton Steel followed LTV and Bethlehem Steel with a 5% across-the-board price increase for its products, effective Jan. 1, 1995.

## DIMON GETS THE NOD FROM WEILL—AGAIN

Sandy Weill has given his heir apparent yet another job. The Travelers CEO named James Dimon, 38, universally known as Jamie, as the head of brokerage operations at Travelers' Smith Barney unit. Dimon, now president and COO at Travelers, replaces Joseph J. Plumeri, a 28-year brokerage-industry veteran who is being eased upstairs to serve as Travelers' vice-chairman.

## THAT ARGUMENT GOT STUBBED OUT FAST

The tobacco industry is having a nicotine fit. On Aug. 2, the Food & Drug Administration asked a panel of experts to determine whether

## HEADLINER

### INFERNO'S DANTE

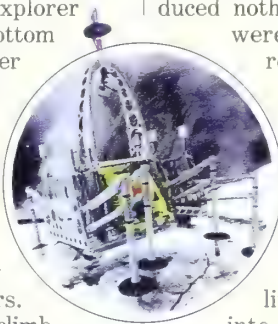
It's not your average industrial fender-welder. Indeed, Dante II is making robots glamorous again. In late July and early August, the 10-foot-tall, spiderlike explorer trekked to the bottom of a volcanic crater on snow-covered Mt. Spurr in Alaska as part of a NASA scientific mission. The robot was nearly crushed several times by car-size boulders. As Dante began climbing out of the crater on Aug. 3, scientists lost contact with it. At press time, it was not clear whether the doughty Dante would live to explore new infernos.

In any case, Dante II fared better than Dante I, which

failed in its attempt last year to plumb another volcano after a critical cable broke. Although Dante II's search for interesting volcanic fumes produced nothing, its operators were happy with the robot's ability to maneuver and to collect data.

Researchers believe Dante II, built by Carnegie Mellon University, could eventually save lives by venturing into such dangerous places as damaged nuclear power plants. NASA, which provided most of the \$1.8 million devoted to the Dante II project, hopes to use robots someday to explore other planets.

By Peter Coy



nicotine was addictive. The verdict: You bet.

The finding doesn't mean the FDA can regulate cigarettes any time soon, though. Under the law, FDA Commissioner David A. Kessler also must prove that cigarette makers purposely use nicotine because of its addictive power. And sources say he won't take action until Congress provides a strong gesture of support. But experts are already discussing potential regulatory steps. One idea would be to mandate lower nicotine levels in smokes to keep teens who experiment with smoking from getting hooked.

## NINE WEST MAY WALK AWAY WITH U.S. SHOE

Jerome Fisher and Vincent Camuto have long had ambitious ideas for expanding Nine West, the women's shoe-maker they jointly run. And on Aug. 1, their plans got much more aggressive: Nine West announced an offer of

\$425 million for the footwear business of Cincinnati's \$2.6 billion U.S. Shoe, which owns the Casual Corner retail chain and such brands as Easy Spirit and Evan Picone. U.S. Shoe's board nixed the deal, but Nine West is directly lobbying U.S. Shoe's shareholders. "This is not going away," says Camuto, who co-chairs Nine West with Fisher. Wall Street is betting U.S. Shoe will capitulate: Its shares rose 2½ points, to just under 23, in the three days after the offer became public.

## ET CETERA...

- ▶ A squirrel-induced outage on Aug. 1 shut down the Nasdaq for 34 minutes.
- ▶ Scott Paper accelerated a plan to cut 10,500 jobs, one-third of its worldwide total.
- ▶ Cobb County, Ga., won't dump antigay ideas—and so won't host Olympic volleyball.
- ▶ American General was rebuffed in a \$2.6 billion offer for Chicago insurer Unitrin.

## LOSING BELL



AUG. 2, '94

AUG. 26, '94

## WORKING RIGHT ALONG

Starbucks Corp. as coffee sellers are almost as stuck as the Seattle company went public in June, 1992, legions of investors have bet its stock would plunge. Sorry, Starbucks trades at a 26% drop that hit Snapple in August 3 after earnings growth edged. Why? Starbucks plans to open 26, in the next 14 months is hiking its prices to offset rising costs in Brazil. Plus, there's a deal with PepsiCo—possibly for joint marketing of iced coffee.

DATA: BRIDGE INFORMATION SYSTEMS INC.



## HEALTH REFORM: THE MODERATES HAVE TAKEN THE HIGH GROUND—FOR NOW

**T**hey've waited a year for this moment. Congressional moderates now have their best chance yet to seize control of the health-care debate. The centrists are poised to push through limited but realistic legislation that could let President Clinton claim victory on most of his reform goals. But Capitol Hill's Democratic leaders pose a huge hurdle for the bipartisan effort. The party's mandarins can't make much headway with their own ambitious plans, but they might let reform die rather than give in to the middle.

The moderates got a huge boost when House Majority Leader Richard A. Gephardt (D-Mo.) unveiled his legislation on July 29. It calls for a new federal program—dubbed Medicare Part C—to cover the unemployed and workers at small businesses. Conservative Democrats, appalled that Gephardt's bill could shepherd over half the population into a government health plan, rushed to embrace a bipartisan compromise being drafted by centrists. "When Gephardt plunged to the left, he gave us a lot more running room" to recruit supporters, says Representative Jim Cooper (D-Tenn.), one of a dozen Democrats and Republicans hammering out the centrist plan.

**ROADBLOCKS.** That compromise, based in part on an earlier Cooper bill, would try to boost insurance coverage voluntarily, rather than by government fiat. New federal rules would bar insurers from discriminating against the sick and make coverage portable. The bill would promote purchasing co-ops where small companies and individuals could shop for cheaper insurance. To hold Republican support, Cooper dropped his proposal to limit employers' tax deductions for premiums.

What's missing from the moderate plan is any pretense of arriving at universal coverage. Unlike Clinton or Gephardt, the moderates won't require employers to pay for it. Instead, they hope that subsidies for the poor will extend coverage to

91% of Americans—who account for 97% of medical costs.

The centrist coalition predicts that its mix will appeal to 80 House Democrats and virtually all 178 GOP members—majority of the chamber. But they will have to withstand withering attack expected from the Clintons and House leadership. "The Democratic leadership could squash us when we become a target," admits GOP negotiator Dennis J. Hastert (R-Ill.). The bipartisan group already is struggling with leadership roadblocks: It couldn't get an appointment with legislative drafters until 1 a.m. on Aug. 1, less than 48 hours before the deadline to submit a bill. "There's no doubt that the leadership will be taking names and twisting arms," says Representative J. Roy Rowland (D-Ga.).

But the House leaders' clout has been undercut by action in the Senate. A bill proposed on Aug. 2 by Majority Leader George J. Mitchell (D-Me.) is easier on employers than Gephardt's plan; it postpones a decision on requiring companies to buy insurance until 2000. Even that loose mandate could be wiped out soon after the Senate begins debate on Aug. 6. With the Senate unlikely to impose any cost burdens on employers, the House will drop Gephardt's stringent bill like the political hot potato it is.

Gephardt's loss, however, doesn't guarantee the moderates will win. With partisan arteries hardening, liberals in Congress and the White House are digging in against any compromise and urging the President to take the health issue to the voters in the November elections. Clinton knows the problem with that strategy: He will have fewer Democrats and even less influence in Congress next year. If Clinton wants to salvage his No. 1 priority, he has no choice but to reach out to the center.

By Mike McNamara



**LIBERALS OPPOSE A COMPROMISE**

### CAPITAL WRAPUP

#### TRADE

**M**exico's lame-duck President, Carlos Salinas de Gortari, is lobbying furiously to become the first director of the new World Trade Organization. But his job prospects may hinge on the outcome of Mexico's Aug. 21 elections. A clean election and solid win for his Institutional Revolutionary Party would make him a shoo-in, but widespread fraud would mar his credentials. The WTO will be created once 118 nations ratify the General Agreement on Tariffs & Trade. "I can't imagine much resistance," says R. K. Morris, an international affairs expert at the National Association of Manufac-

turers. "From an American and international economic standpoint, he's been a brilliant president." Salinas still faces one other roadblock: Congress could reject GATT, which faces a yearend deadline for approval.

#### THE CABINET

**A**ll aboard, Cabinet officers! But not Health & Human Services Secretary Donna E. Shalala. She wouldn't ride in last month's Health Security Express, a cross-country bus tour promoting health-care reform. Advocacy groups paid for the trip, and the White House donated Cabinet members. But HHS lawyers ruled that a bus ride may violate a law banning officials from grassroots

lobbying. Shalala showed up in St. Louis for a rally. But she flew there.

#### POLITICS

**H**is only previous race was a losing bid for Texas attorney general in 1978, but former Secretary of State James A. Baker III is leaning ever closer to a run for the 1996 Republican Presidential nomination. Associates say Baker thinks Bill Clinton is vulnerable. Besides, no other challenger seems to be catching fire with the GOP faithful. At 64, Baker senses that it's now or never. Says one friend: "He hates the thought of losing, but he hates even more the thought of never achieving his ambition to be President."



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CHINA

## WILL CHINA SCUTTLE ITS PIRATES?

The U.S. is pushing for a crackdown and threatening sanctions

**A**merican trade officials in Beijing earlier this summer were treated to an unusual bit of street theater. Knowing the officials would be watching, 23 Chinese police and judges garbed in green military uniforms assembled in front of the hotel complex where the U.S. delegation was preparing for talks on intellectual-property rights. Then the posse split off into motorcades and set off on raids on alleged software pirates. "It was like having a mariachi band serenading you below the balcony," says Stephanie Mitchell, vice-president of the U.S. Business Software Alliance (BSA).

But that's not going to be enough to satisfy the Americans. They are gearing up for a crucial round of talks with the Chinese in August. It will be the first since June 30, when the U.S. launched a probe of Chinese intellectual-property abuses that could result in multimillion-dollar trade sanctions against Beijing. Acting in harmony with Washington, U.S. business is joining the fight. In late July, Microsoft, Lotus Development, and Autodesk filed suit in a Beijing court against five retailers that the software companies claim were selling computers loaded with pirated programs. Walt Disney Co. is suing in another case.

**ONLY A START.** Now that President Clinton has ended the annual debate about China's most-favored-nation trade status, issues such as intellectual property are moving to the top of the U.S.-Chinese trade agenda. And while the Administration has been ineffectual with Japan, the U.S. has some real clout with China. Until Beijing acts, Washington is threatening to withhold support for China's effort to boost its international stature by entering the General Agreement on Tariffs & Trade. As a carrot, the U.S. is holding out the prospect of much higher-profile official contacts.

Raids on retailers of pirated goods are a start. Clinton Administration officials are insisting that China shut dozens of factories that churn out illicit soft-

ware, videotapes, compact discs, and books—costing U.S. business more than \$800 million last year (table).

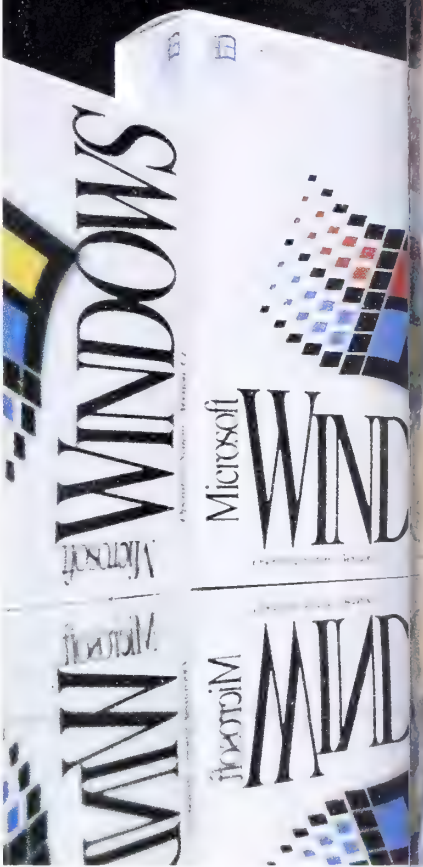
China does have laws on its books to protect patents and copyrights. But authorities rarely enforce them. In late July, Science and Technology Minister Song Jian vowed the government would do more, including a nationwide crackdown on copyright piracy. That hasn't impressed Washington. "It's a question of political will," says a U.S. trade official. "They have ample resources to find these people and put them in jail."

Some U.S. companies aren't waiting for official action. Singly or through industry trade groups, they are testing the waters of China's newly formed intellectual-property courts. The first such case to come to trial is Disney's suit against a Chinese bookstore, printer, and distributor. Disney acted after it found books in Beijing using Disney characters. Company officials decline to discuss the case. The International Federation of Phonographic Industries has filed three other cases on behalf of music producers. China's CD pirates cost American producers \$345 million a year.

But China's judicial system moves slowly at best. The BSA presented evidence of stores selling pirated goods back in March on behalf of Microsoft, Lotus, and other software companies. But it took Chinese authorities four

months—and the Administration's threat of sanctions—to respond with sweeps of the target stores. Based on the evidence seized, Microsoft, Lotus, and Autodesk filed their suit. But all the software companies fear that such delays could give suspects time to destroy incriminating evidence.

When foreign companies do win a case in the courts, the resulting fine



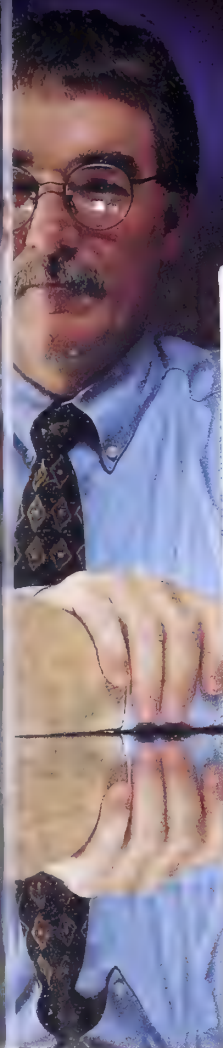
A REAL (LEFT) AND FAKE MICROSOFT CERTIFICATE

### THE COST OF PIRATED INTELLECTUAL PROPERTY

TOTAL  
**\$827 MILLION**

DATA: INTERNATIONAL INTELLECTUAL PROPERTY A





just killed our legitimate business in Hong Kong," says Jay Berman, chairman of the Recording Industry Assn.

U.S. trade officials are counting on the threat of sanctions, and the threat of blocking China's entry into GATT, to force it to crack down. "We try to set it up so that they don't have a choice," says an Administration trade official. American negotiators are laying out a step-by-step enforcement regimen similar to get-tough tactics the U.S. has pressed other Asian nations to adopt. The Administration, for example, wants China to form strike teams to stage well-publicized raids and shut down offenders with crippling fines and jail terms.

**NO FLOOD.** It's a program that has worked in other markets once rife with copyright violations. In the late 1980s, 85% of videocassettes sold in South Korea were pirate versions. But under stiff pressure from the U.S., Seoul has been zealously rooting out counterfeiters.

Even if China closes the pirate factories, no one expects sales of the U.S. originals to flood the market. Americans still face informal quotas and other barriers. Authorities in Beijing say they want to ease those curbs and combat piracy but can't control all the myriad illegal outfits in their sprawling market. Moreover, their power over the booming

**MICROSOFT COUNSEL CURTIS DISPLAYS HIS COMPANY'S SOFTWARE (LEFT) AND BOGUS VERSIONS PRODUCED BY CHINESE COUNTERFEITERS**

coastal regions has greatly diminished. "The question is whether the central government can muster the political clout to make the provinces come to heel," says Eric H.

Smith, executive director of the International Intellectual Property Alliance.

Indeed, it's no secret who the offenders are. U.S. officials have given Chinese authorities the names, addresses, and telephone numbers of the biggest counterfeiters. The problem, U.S. officials say, is that the Trade Ministry is politically weak—while some of the pirate plants are run by people with ties to the military. Says a U.S. official of one such plant: "We've been told privately by the trade minister that it's untouchable."

The Americans respond that better policing of intellectual-property rights is also good for China. "To be a player in the high-tech arena, China must have more enforcement, stronger laws, and stronger penalties," says David Curtis, associate general counsel at Microsoft. As the American pressure increases, that's a message that Chinese officials will be hearing more often.

*By Amy Borrus in Washington, with Pete Engardio in Hong Kong, Richard Brandt in San Francisco, and bureau reports*

be paltry. Microsoft sued state-owned Shenzhen Reflective Materials Institute for trademark infringement in 1993 after determining that the institute had made at least 650,000 fake holograms similar to those Microsoft uses on its packages. Microsoft says those holograms were used on counterfeit software packages sold overseas, at a value between \$20 million and \$150 million.

In 1993, the court awarded Microsoft a mere several hundred dollars in damages and fines. The penalties were later raised to \$5,000. In an appeal, Microsoft is requesting \$20 million. Microsoft has seen several types of its programs copied, including its Excel spreadsheet, one of its biggest sellers. During a visit to China in March, William H. Gates III complained personally to President Jiang Zemin about China's intellectual-property record.

The problem for U.S. companies isn't just that violations of intellectual-property rights in China undermine sales there. As Microsoft discovered, much of the counterfeit production is exported, so it eats into sales from Asia to Latin America. Take music. U.S. officials say 26 CD factories in southern China produce up to 80 million copycat CDs annually, of which around 75 million are exported. "It has

#### 1993 U.S. LOSSES IN CHINA (MILLIONS OF DOLLARS)

|                  |       |
|------------------|-------|
| MUSIC RECORDINGS | \$345 |
| SOFTWARE         | \$322 |
| BOOKS            | \$110 |
| MOVIES           | \$50  |



## FEAR OF DEBT IS STALKING EUROPE

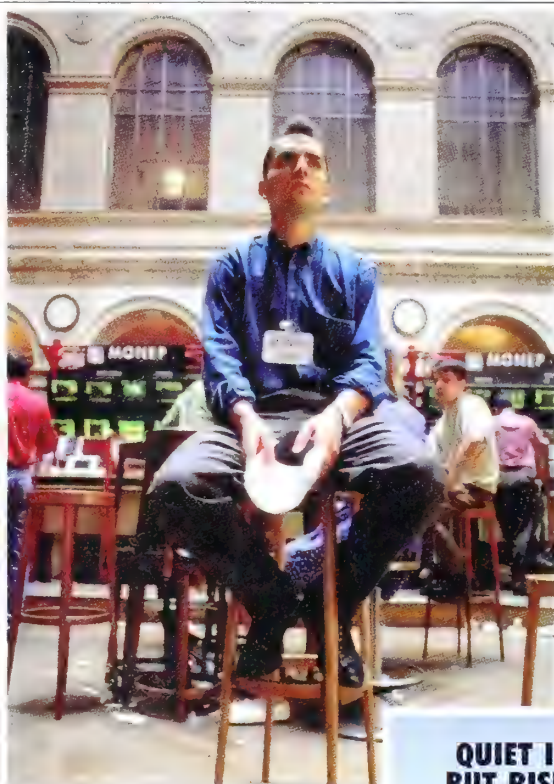
Skepticism over deficit cutting spooks the bond markets

**S**wedish exports are booming, the krona is undervalued, and inflation is running below 2.5%. So smart investors ought to be flocking to snap up 10-year government bonds paying a hefty 10.5%, right? Well, not exactly. Instead, Swedish officials were shocked in July when Skandia Insurance Co. Chief Executive Björn Wolrath declared that his company, the region's largest insurer, had sold off its portfolio of government debt. Not only that. He also vowed to boycott further purchases until Sweden's politicians get a handle on runaway public-sector finances.

With national elections and a referendum on joining the European Union looming over Stockholm markets, the Swedish boycott may be an extreme case. But across Europe, traders are reading it as a cautionary tale. From Italy and Spain to Belgium and France, the same troubling tandem of bad public finances and shaky politics is instilling a kind of inflation psychosis in markets that is making demand for government debt tough to muster. It's a much more serious problem than in the U.S., because Washington's annual budget deficits are shrinking.

**COMING CRISIS?** The result is that European governments must continue to delay debt issues, push back funding schedules, and compete increasingly with corporate borrowers for scant buyers. Traders worry that the supply imbalance could prolong high real interest rates that will truncate Europe's recovery. Some even envision a AAA-rated version of the Latin debt crisis. In Europe, says S.G. Warburg Group PLC international economist George Magnus, "the issue of first-world debt is running very deep."

Those worries are keeping European bonds from breaking free of the pattern



PARIS BOURSE: THE SHAKINESS IS SPREADING TO EQUITIES

of rising interest rates now under way in the U.S. (chart). Reflecting the supply imbalance, Germany and Spain have had to shelve bond issues this summer, and Britain had to resort to non-traditional methods, such as issuing floating-rate debt to entice buyers. Despite the tactics, though, buyers still gave a lukewarm welcome at best to German and British bond issues in late July. The shaky bond market has also spread to equities, forcing some companies to postpone new stock issues or sell them at a discount to attract buyers.

But for now, it is governments that are paying the biggest price. In Italy, fears of political turmoil have pushed 10-year bond yields 400 basis points

above comparable German bonds. That has led Prime Minister Silvio Berlusconi's government to delay refunding plans for bond redemptions due next year. In Spain, officials have sidestepped long-term markets by borrowing more short-term rates. But those issues will have to be refinanced within 12 months.

Who will buy the backlog is a question that perplexes traders. Hedge funds, battered in this year's market sell-offs, are nowhere to be seen. Japanese and other foreign investors, hurt by currency devaluations in Europe, are staying on the sidelines. And borrowing demand isn't letting up. Kirit Shah, a London-based international bond strategist at First National Bank of Chicago, figures German public-sector debt will reach \$1.2 trillion by next year, double its level of five years ago.

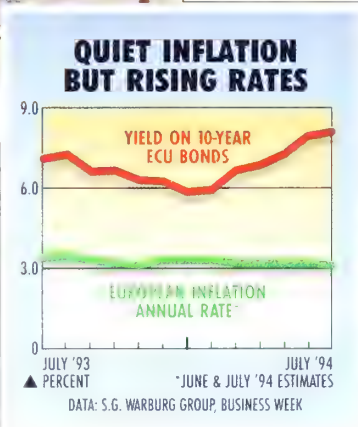
**COLLISION COURSE.** To make up for failing foreign investors, European banks are being put in the potentially inflationary situation of being obliged to hold more and more government debt. Last year, 47% of German government debt was sold domestically. Banks bought 40% of it. But governments will likely find themselves on a collision course with corporations heading back into markets to raise funds. The bidding war will likely push up rates.

All of this means traditional market psychology has been stood on its head. In the past, good economic fundamentals, such as low inflation, would bring rates down and spark a bull run in bonds. The reason it doesn't seem to be working that way these days is that European leaders simply haven't demonstrated to markets that they can contain, much less dismantle, the European welfare state. The EU estimates that of a budget deficit amounting to 6% of gross domestic product, some 90% is structural—meaning it will

not be reduced by the economic cycle.

As deficits push up bond yields, Europe's second year of recovery in 1994 could take on a distinctly lackluster hue. Lower growth could speed the need for more revenues, thus boosting the financing burden. "We're probably in a vicious circle here," worries First Chicago's Shah. And one that Europe's politicians will either break or be broken by, as recovery withers on the vine.

By Bill Javetski in Paris



## WHY A STAGNANT ECONOMY IS GOOD FOR BUSINESS.

Oh, to be young and brilliant in the worst days of the Great Depression. In 1930, Michael Cullen went to his employer, the Kroger Grocery Company, with an idea. He envisioned a new kind of grocery store, vast and with no frills. Run according to his financial strategy, it would create great public excitement — and huge profits. In short, Cullen would price 300 items at cost. Another 300 barely above cost. And the remaining 600 or so at a very healthy margin. Of course, he'd promote the at-cost items only. Depression or no, he believed people would "break my front door down to get in." When Kroger declined, Cullen decided to lead the revolution himself. Within five years he owned 15 King Kullen Supermarkets. He put many smaller specialty stores out of business. And he put the national grocery chains, including his former employer, on notice: Fight me or join me.

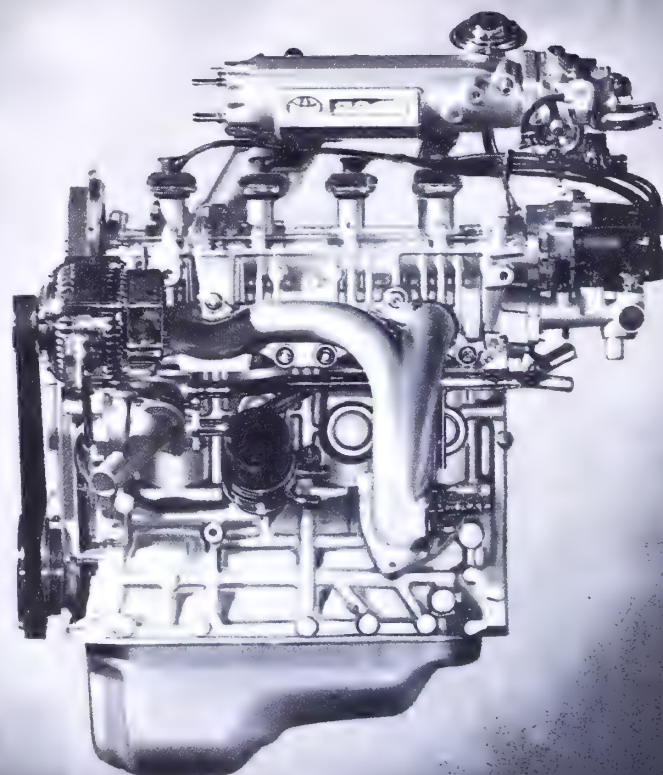


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## WHY ASSAD MAY BE READY TO COME IN FROM THE COLD

**W**ith Jordan almost in the bag, U.S. Secretary of State Warren M. Christopher is heading for the Middle East on Aug. 5 to try to give the frustratingly slow Syrian-Israeli talks a boost. If Syria's President Hafez al-Assad agrees to terms, that would be another giant step toward wrapping up the Arab-Israeli conflict. Jordan's King Hussein would then be able to quickly finalize his deal with Israel, and Syrian-influenced Lebanon would present no problems.

Bringing Assad in from the cold won't be easy. The wily senior Air Force commander is a hard bargainer who has scuttled many a peace initiative.

But the outlines of a deal providing Israel's withdrawal from the Golan Heights can now be discerned. The disagreements are more over details than principles. For example, the Israelis want a phased pullout while the Syrians demand a quick one.

**BREAKER.** They are further apart on the definition and timing of full-fledged peace. "The Israelis want all the trimmings—including an embassy in Damascus, trade, and tourist exchanges—and they want them as soon as possible. The Syrians hope to minimize and delay such facts. 'Suddenly having an Israeli embassy in Damascus is probably more than Syrians can digest after such a bitter deal,' says a well-placed Syrian.

Such is the distrust on both sides that many analysts think a dramatic gesture is needed to break the ice. "All we need is eye-to-eye meeting between Assad and Rabin," says Israel's Tourism Minister Uzi Baram, a dovish member of the Labor Party. But Arab sources say Assad worries about spending his last card—recognition of Israel—without a sure return.

Still, the chances of a breakthrough on the Israeli-Syrian track over the next few months are good because Assad

wants his regime to prosper in the new era that is dawning in the Middle East. He knows that Syria is in poor shape. The collapse of the Soviet Union deprived him of his key patron. His only major ally is Iran, a near-pariah state. This past January he lost his son and heir apparent, Basil Assad, in a mysterious car wreck. With the 63-year-old Assad looking increasingly frail, a second son, Bashar, who was studying to be an eye doctor, is now being hastily groomed with crash military courses, but he may not be up to ruling a dictatorship.

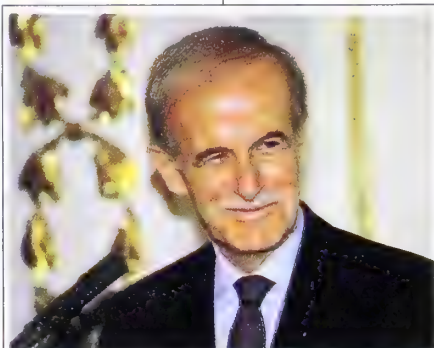
In addition, 30 years of Baath party socialist management and heavy spending on arms have taken a severe toll on the Syrian economy. Per capita income is only about \$1,000. Although oil finds have pumped in a little life recently, Damascus is a poor relation compared with nearby Amman—not to mention Israeli cities.

**MINOR GESTURES.** Assad is pursuing talks with Israel not so much because he wants peace but because he wants U.S. help in weathering the coming transition. He is angling for a U.S. blessing that would shore up his position and open the way for investment, European and Gulf aid, and new lending by the World Bank, to which Syria is now over \$400 million in arrears. Some observers say he wants

the sort of multiyear, multibillion-dollar U.S. aid commitment that Egypt got at Camp David in 1979.

To get ready, Assad is gradually preparing his people for peace and making Syria more acceptable to the outside world. He allowed extensive coverage in the state media of the July 25 Jordan-Israel deal. He is slowly opening up the Syrian economy. But these are minor gestures. The challenge is for Assad, the Israelis, and the U.S. to agree on a price for peace before the moment of opportunity passes.

*By Stanley Reed in New York, with Neal Sandler in Jerusalem and Amy Borrus in Washington*



ASSAD: OPENING UP SYRIA'S ECONOMY

### GLOBAL WRAPUP

#### OPTIMISM ON MEXICO

International investors are turning optimistic about the outcome of the hotly contested Aug. 21 presidential election. Apparently anticipating an orderly balloting and a victory by the ruling Institutional Revolutionary Party, the investors are reentering the markets, helping to lift the stock-exchange index by 3% in early August. Heavy buying has furthermore brought rates on peso-denominated T-bills down from 17% to 15.8%. The money flows are beginning to ease the pressure on the peso, which had been the target of rumors suggesting that a devaluation might be forthcoming.

#### BREAK FROM GATT

**T**hanks to heavy lobbying by the Clinton Administration, the General Agreement on Tariffs & Trade (GATT) will delay its ruling on the European Union's challenge to U.S. car fuel-efficiency standards and gas-guzzler taxes until the fall. That should give the President time to win congressional approval of legislation implementing a new World Trade Organization. An adverse ruling from GATT might have doomed the WTO, GATT's would be successor organization, which is already coming under heavy fire in Congress for violating American sovereignty.

#### U.S.-CHINA ACTION

**F**ollowing the showdown over China's most-favored-nation trading status, the U.S. is moving swiftly to arrange high-level talks with the Chinese. In the military realm, the deputy chief of the Chinese army's general staff will visit the Pentagon in early August to discuss defense conversion and other matters. In turn, Defense Secretary William Perry may go to Beijing in the fall. Visits by Commerce Secretary Ronald H. Brown, drug czar Lee Brown, and others are planned. The Chinese hope the exchanges will set the stage for a summit between Clinton and Premier Jiang Zemin.



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<sup>2</sup>You must accept installation by October 15, 1994.  
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## ONE BIG WALLOP OF

**S**ure, it's the sober 1990s, but the script for this year's buoyant second quarter seems straight out of the go-go 1980s: A healthy economy. Strong sales. And how's this for a bit of nostalgia: Big Blue was among the most profitable companies in America.

Thanks in large part to a rebound at IBM, profits for the 900 companies in BUSINESS WEEK's Corporate Scoreboard

rose by a breathless 45% in the second quarter. That's the biggest leap since the final quarter of 1992, when profits rose 51%. Even excluding IBM's huge surge in earnings, profits still jumped 21%.

A vibrant economy certainly helped enliven Corporate America's bottom line. Growth in gross domestic product quickened to 3.7% in the second quarter, from

3.5% a year earlier. As a result, corporate sales rose 8%, to \$1.06 trillion. That's slightly better than the 7% increase in the first quarter, and a improvement over the 5% gain of a year ago. Best of all, the sales growths mostly real—not the product of inflation. "Corporations aren't raising prices to get these profits. They're doing the old-fashioned way: They're selling

### WINNERS AND LOSERS IN SECOND-QUARTER PROFITS

#### THE INDUSTRIES

##### THE SHARPEST GAINS

Percentage change from 1993's second quarter

|                                   |      |
|-----------------------------------|------|
| NONFERROUS METALS                 | 521% |
| INSTRUMENTS                       | 211  |
| SPECIAL MACHINERY                 | 146  |
| CARS & TRUCKS                     | 95   |
| CONSTRUCTION & REAL ESTATE        | 79   |
| TELECOMMUNICATIONS EQUIP. & SVCS. | 69   |
| CONGLOMERATES                     | 57   |
| DRUGS & RESEARCH                  | 56   |
| AUTO PARTS                        | 47   |
| HOTEL & MOTEL                     | 47   |
| CHEMICALS                         | 44   |
| PUBLISHING                        | 44   |
| SEMICONDUCTORS & COMPONENTS       | 38   |
| MACHINE & HAND TOOLS              | 38   |
| APPLIANCES & HOME FURNISHINGS     | 38   |

##### THE DEEPEST DROPS

Percentage change from 1993's second quarter

|                              |      |
|------------------------------|------|
| TRUCKING & SHIPPING          | LOSS |
| ALUMINUM                     | LOSS |
| CONSTRUCTION & ENGINEERING   | -43% |
| COAL, OIL, & GAS             | -34  |
| PETROLEUM SERVICES           | -31  |
| FINANCIAL SERVICES           | -21  |
| DISCOUNT & FASHION RETAILING | -16  |
| APPAREL                      | -13  |
| TEXTILES                     | -13  |
| AEROSPACE & DEFENSE          | -11  |
| ELECTRICAL PRODUCTS          | -6   |
| FOOD DISTRIBUTION            | -6   |
| GAS UTILITIES                | -6   |
| ELECTRIC UTILITIES           | -4   |
| INSURANCE                    | 0    |

ALL INDUSTRY AVERAGE +45%

#### THE COMPANIES

##### WHO MADE THE MOST

Millions of dollars

|                   |         |
|-------------------|---------|
| GENERAL MOTORS    | \$1,923 |
| FORD MOTOR        | 1,711   |
| GENERAL ELECTRIC  | 1,522   |
| PHILIP MORRIS     | 1,232   |
| AT&T              | 1,130   |
| CHRYSLER          | 956     |
| EXXON             | 885     |
| CITICORP          | 877     |
| DUPONT            | 792     |
| MERCK             | 764     |
| COCA-COLA         | 758     |
| IBM               | 689     |
| INTEL             | 640     |
| GTE               | 595     |
| JOHNSON & JOHNSON | 559     |

##### WHO LOST THE MOST

Millions of dollars

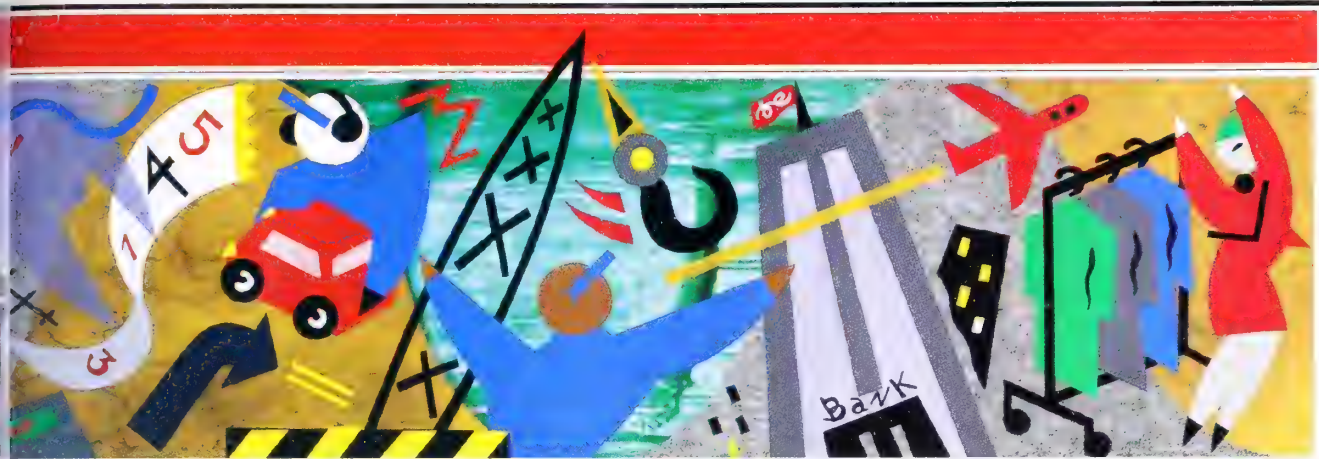
|                              |         |
|------------------------------|---------|
| DIGITAL EQUIPMENT*           | \$1,740 |
| DELTA AIR LINES*             | 250     |
| SALOMON                      | 200     |
| R.H. MACY**                  | 150     |
| GENERAL PUBLIC UTILITIES     | 120     |
| COMPUTER ASSOCIATES INT'L*** | 80      |
| ROSE'S STORES***             | 60      |
| WESTPOINT STEVENS            | 50      |
| STONE CONTAINER              | 50      |
| CONTINENTAL AIRLINES         | 40      |
| ALCO STANDARD**              | 40      |
| GREYHOUND LINES              | 40      |
| MAXXAM                       | 40      |
| MORRISON-KNUDSEN             | 40      |
| WOOLWORTH***                 | 30      |

\*Fiscal fourth quarter  
\*\*\*Fiscal first quarter

\*\*Fiscal third quarter

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF MCGRAW-HILL INC.





# AYOFF

## BOOSTED BY A RESURGENT IBM, EARNINGS SOARED A ROARING-'80s-STYLE 45%, THANKS TO A VIBRANT ECONOMY AND MAJOR BELT-TIGHTENING

stuff," says Maureen F. Allyn, chief economist with Scudder, Stevens & K Inc.

continued belt-tightening also helped. Thanks partly to downsizing, margins rose to 5.8% in the second quarter, up 1.4% last year. Margins haven't been this healthy since the prerecession quarter of 1989, when they also were 5.8%. "We're seeing real solid payoffs from restructuring and investments in technology that have been ongoing in the last five years," says Hugh A. Johnson, chief economist at First Albany Corp., a consulting firm in Albany, N.Y.

**OWN FEVER.** Of course, companies that keep up this torrid earnings pace. S&P Inc. estimates that per-share earnings growth for the Standard & Poor's stock index will slow to 20% in the third quarter from 48% in the second. BUSINESS WEEK economists figure that earnings-per-share growth economywide will slow to 20% from the second quarter's 20% to 15% in the third quarter and 5% in the fourth. More modest economic growth may have a lot to do with the slowdown. Growth may come in a shade below the second half, according to BUSINESS WEEK calculations. That's because companies will have to work down inventories. Of the 3.7% increase in second-quarter GDP, more than half came from expanding inventories. Still, earnings in the second half will get a boost from foreign sales (page 50).

The Big Three auto makers were among the biggest winners as consumers continued to snap up Detroit's latest designs. Lower expenses for research and other sales incentives also helped drive Motown's profits. For the

second straight quarter, General Motors Corp. headed the list of BUSINESS WEEK's top 15 earnings leaders. GM's profits rose a staggering 116%, to \$1.92 billion, as its sales climbed 11%, to \$40.4 billion.

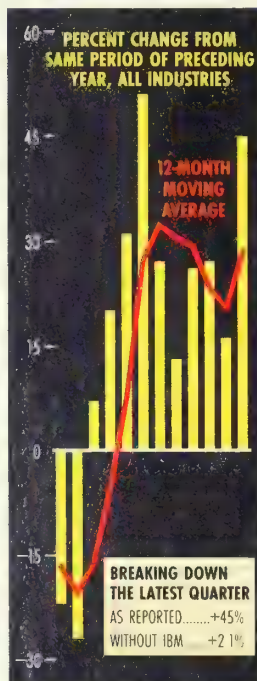
Meanwhile, Chrysler Corp. posted record second-quarter profits of \$956 million, up 40% from a year ago. Thanks to the popularity of its Ram pickup and Jeep Grand Cherokee, sales rose 19%, to

\$12.7 billion. Ford Motor Co., bolstered by a recovery in its European operations and better sales of light trucks, also posted its best quarterly results ever. Earnings were up 121%, to \$1.7 billion, as sales rose 15%, to \$33.8 billion.

Telecommunications companies fared well, too, thanks in part to an upsurge in long-distance calling and the use of premium services, such as 800 numbers. AT&T's

### A SPOTLIGHT ON SECOND-QUARTER PROFITS

#### AFTERTAX PROFITS QUARTER BY QUARTER



DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF MCGRAW-HILL INC.

#### INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER

IBM's continued turnaround was the biggest factor in the quarter's 45% profit surge. Auto makers were also strong, topping a good 1993 with an exceptional 1994 so far. Chrysler's 40% profit gain made it the laggard of the Big Three, as the profit growth at GM and Ford topped 100%. Strong car sales helped steelmakers' profits, too. The quarter also had a few disappointments. As interest rates rose and the stock market stumbled, brokerages suffered.

FINANCIAL SERVICES

COAL, OIL & GAS

#### COMPUTERS & PERIPHERALS

CARS & TRUCKS

DRUGS & RESEARCH

AIRLINES

CONGLOMERATES

TELECOMMUNICATIONS

STEEL

CHEMICALS

CHANGE IN AFTERTAX PROFITS OR LOSS FROM 1993

← BILLIONS OF DOLLARS →



profits rose 12%, to \$1.1 billion, as its sales increased 9%, to nearly \$18 billion. Ma Bell's chief competitors were close behind: Profits at MCI Communications Corp. and Sprint Corp. rose 21% and 33%, respectively.

Computer makers also rebounded smartly from disappointments a year earlier. None, however, matched IBM's impressive turnaround. Thanks in large part to deep cost cuts that reduced expenses by 18% in the second quarter, IBM posted a \$689 million profit—even though sales declined 1%, to \$15.4 billion. It was the third straight quarter IBM has been in the black, and a far cry from the \$8 billion loss the computer giant suffered a year ago after taking steep restructuring charges. Apple Computer Inc. also recovered, as personal-computer sales picked up. Apple had profits of \$138 million in the second quarter, compared with a \$188 million

loss a year ago. Its sales rose 15%, to \$2.1 billion.

Still, the computer industry had its share of bad news. Digital Equipment Corp. topped the list of the second quarter's biggest losers. It posted a loss of \$1.7 billion, compared with a \$113 million profit a year ago, after taking a \$1.2 billion charge to consolidate plants and lay off 20,000 workers over the next 12 months.

**SPUTTERING MARKETS.** There were other disappointments, as some retailers stumbled. Beleaguered Kmart Corp. was among the biggest losers. Price-cutting contributed to lower profit margins. Its profits plummeted 69%, to \$18 million, as sales rose by 6%, to \$7.9 billion. Earnings at Sears, Roebuck & Co. also retreated sharply, falling 54%, to \$503 million. But Sears' latest results are benchmarked against huge gains a year earlier, when the retail giant sold off

nearly 20% of its Allstate insurance unit. Sales at Sears rose 7%, to \$13 billion. Wal-Mart Stores Inc. once again put its competitors to shame. Its profits rose 11%, to \$498 million, as sales shot up 27%, to \$17.7 billion.

Financial services also had a poor showing, with profits down 21%. After two rounds of interest-rate hikes, stock markets sputtered, and the volume of underwriting was also down. The biggest casualty: Salomon Brothers Inc., which saw its second-quarter revenues drop 50% to \$1.3 billion, because of the weak bond market. And given the markets' continued skittishness, few analysts see much reason for big brokerages to bounce back anytime soon. But for the rest of Corporate America, this taste of the Roaring Eighties has been sweet indeed.

*By Julie Tilsner, with Kathleen Madigan, in New York*

## A BIT OF FOREIGN AID FOR U.S. BUSINESS

**D**oes a weaker dollar pump up profits for U.S. corporations? After all, a frailer greenback produces a double boost for overseas sales. Not only are U.S. goods cheaper abroad, but revenues are also enhanced when sales in stronger currencies are translated back into dollars. So the benefit to U.S. exports—and corporate earnings—could be a bright spot amid the otherwise dismal fallout of higher inflation and interest rates connected with a sliding currency.

To be sure, the foreign factor is having a big impact on earnings—but it isn't the weaker dollar that's giving export operations their healthy glow. Instead, stronger economic growth is fueling demand for U.S. products. That's especially evident in Southeast Asia and Latin America, which together buy 25% of all U.S. exports. As a result, **BUSINESS WEEK** economists believe U.S. companies' earnings from overseas operations for this year should increase by about 10%, to \$71 billion (chart). That's better than the 7.7% advance of 1993. And it's the biggest increase since the 14% gain in 1990, which was also aided by stronger economic growth abroad.



### CASHING IN ABROAD



Not that the weak dollar won't have an impact. But it may be limited. True, the dollar has dropped about 10% against the Japanese yen and German mark. Both Japan and Germany, however, have been in severe recessions, so demand in those countries for U.S. goods has been extremely weak. And keep in mind that the dollar's slide since January has not been widespread. In fact, the dollar's value has hardly changed when measured against a total of most of the world's currencies.

**BLAZING SALES.** In countries where the economies are expanding, though, sales of U.S. goods and services—from shampoo to insurance—are booming. In South Korea and Singapore, where economic growth may average 8% this year, U.S. exports are already up 14%, to \$12 bil-

lion, for the first five months of 1994. Likewise, exports to China, where the economy could grow 10%, are running 14% ahead of last year's \$3.2 billion.

Some companies have already booked some of the benefits in their second-quarter results. A Colgate-Palmolive Co. for instance, unit sales worldwide rose 9% in the second quarter. But volume in the Asia-Pacific division was up a blazing 24%. Sales in

Malaysia, Hong Kong, and China were exceptionally strong.

Overseas operations are likely to carry even more weight in the second half, as Europe rebounds. After a two-year slump, Germany will grow at an annual rate of 3% in the third and fourth quarters, say economists at Deutsche Bank. And with the Continent's biggest economy recovering, Europe should expand just under 3%. And here's where the weaker dollar will help. "A currency advantage at the same time as stronger growth translates to a pure double-lift to the bottom line," says C. Michael Aho, senior international economist at Prudential Securities Inc. That's a welcome result in any language.

*By Kathleen Madigan in New York*

# CORPORATE SCOREBOARD

## SECOND QUARTER 1994

### ISSARY

**Sales:** Includes all sales and other operating revenues. For banks, includes all operating revenues.

**Profits:** Net income before extraordinary items. For banks, profits are net income after extraordinary gains or losses.

**Margins:** Net income from continuing operations before extraordinary items as percent of sales.

**Return on common equity:** Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

**Price-earnings ratio:** Based on July 22, 1994, common-stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

**Earnings per share:** For most recent 12-month period. Includes all common-stock equivalents.

### COMPANY

#### SALES

#### PROFITS

#### MARGINS

RETURN ON  
COMMON  
EQUITY  
12 MONTHS  
ENDING  
6-30

PRICE-  
EARNINGS  
RATIO  
7-22

12  
MONTHS'  
EARNINGS  
PER  
SHARE

### INDUSTRY

#### COMPOSITE

1064391.8 8 2096287.7 7 61805.8 45 119223.0 30 5.8 4.3 13.6 18 1.94

### AEROSPACE & DEFENSE

#### INDUSTRY COMPOSITE

23467.4 -12 45839.0 -6 961.5 -11 1903.3 -2 4.1 4.1 13.5 13 3.77

|                        |          |     |         |     |       |     |       |     |     |     |       |    |      |
|------------------------|----------|-----|---------|-----|-------|-----|-------|-----|-----|-----|-------|----|------|
| Boeing                 | 5396.0   | -32 | 11741.0 | -20 | 222.0 | -48 | 514.0 | -32 | 4.1 | 5.3 | 10.8  | 16 | 2.96 |
| Boeing Corp (1)        | 467.7    | -5  | 869.4   | -3  | 14.2  | -20 | 11.0  | -54 | 3.0 | 3.6 | 139.4 | 13 | 0.95 |
| General Dynamics       | 820.0    | 6   | 1620.0  | -1  | 56.0  | -11 | 111.0 | -15 | 6.8 | 8.1 | 20.6  | 10 | 3.96 |
| Lockheed               | 3096.0   | -8  | 6121.0  | 5   | 104.0 | 11  | 196.0 | 15  | 3.4 | 2.8 | 17.8  | 9  | 7.07 |
| Martin Marietta        | 2491.0   | -5  | 4525.3  | 20  | 162.7 | 31  | 347.3 | 73  | 6.5 | 4.8 | 26.5  | 8  | 5.60 |
| Donnell Douglas        | 3250.0   | -15 | 6203.0  | -16 | 138.0 | -19 | 272.0 | -22 | 4.2 | 4.5 | 8.0   | 16 | 7.17 |
| Northrop Grumman       | 1686.0   | 29  | 2904.0  | 12  | 65.0  | 23  | 117.0 | 11  | 3.9 | 4.0 | 7.9   | 19 | 2.20 |
| Orion (5)              | 231.1    | -22 | 472.3   | -26 | -2.7  | NM  | -1.0  | NM  | NM  | NM  | 3.6   | 38 | 0.29 |
| Rockwell International | 331.1    | -3  | 655.4   | -4  | 19.1  | -1  | 36.9  | -17 | 5.8 | 5.6 | 16.9  | 20 | 2.44 |
| Rockwell               | 209.5    | 20  | 400.5   | 20  | 11.2  | 21  | 21.1  | 19  | 5.3 | 5.3 | 13.2  | 17 | 2.12 |
| Rockwell Technologies  | 5489.0** | -1  | 10327.0 | -1  | 172.0 | 32  | 278.0 | 43  | 3.1 | 2.3 | 14.5  | 15 | 4.12 |

### Automotive

#### INDUSTRY COMPOSITE

100964.0 14 194642.1 13 5256.9 85 9212.0 92 5.2 3.2 27.3 10 3.93

|                            |           |    |         |    |        |     |        |     |     |     |       |    |       |
|----------------------------|-----------|----|---------|----|--------|-----|--------|-----|-----|-----|-------|----|-------|
| Chrysler                   | 12699.0   | 19 | 25593.0 | 20 | 956.0  | 40  | 1894.0 | 56  | 7.5 | 6.4 | 35.5  | 6  | 8.42  |
| Ford Motor                 | 33772.0   | 15 | 64174.0 | 14 | 1711.0 | 121 | 2615.0 | 94  | 5.1 | 2.6 | 19.0  | 9  | 3.52  |
| General Motors             | 40392.2** | 11 | 77887.5 | 10 | 1922.8 | 116 | 3534.6 | 152 | 4.8 | 2.5 | 61.3  | 10 | 4.86  |
| Chrysler International (2) | 1380.0    | 12 | 2508.0  | 11 | 23.0   | 53  | 39.0   | 129 | 1.7 | 1.2 | -52.7 | NM | -9.38 |
| Isuzu Truck (3)            | 187.0     | 22 | 379.9   | 24 | 3.7    | 423 | 6.4    | 140 | 2.0 | 0.5 | 10.1  | 8  | 1.35  |
| Isuzu car                  | 1120.3    | 28 | 2152.2  | 28 | 50.6   | 54  | 94.2   | 56  | 4.5 | 3.7 | 15.5  | 11 | 4.53  |

### Trucks & Equipment

INDUSTRY COMPOSITE 7873.9 19 15037.5 17 377.5 47 658.5 48 4.8 3.9 16.0 15 2.28

|                            |          |    |        |    |      |     |       |     |     |     |      |    |      |
|----------------------------|----------|----|--------|----|------|-----|-------|-----|-----|-----|------|----|------|
| Chrysler Industries        | 539.3    | 8  | 1018.5 | 7  | 14.0 | -10 | 19.1  | -10 | 2.6 | 3.1 | 8.4  | 14 | 1.71 |
| Chrysler-Warner Automotive | 312.1    | 25 | 599.3  | 23 | 18.8 | 116 | 32.5  | 173 | 6.0 | 3.5 | 11.2 | 13 | 2.29 |
| Chrysler Engine            | 1204.9   | 10 | 2304.1 | 8  | 66.2 | 37  | 120.8 | 35  | 5.5 | 4.4 | 24.1 | 8  | 5.47 |
| Chrysler                   | 1712.6** | 21 | 3309.3 | 21 | 68.0 | 86  | 115.7 | 93  | 4.0 | 2.6 | 22.0 | 15 | 1.91 |
| Chrysler Diesel            | 413.2    | 2  | 818.5  | 6  | 8.9  | 78  | 17.3  | 94  | 2.2 | 1.2 | 13.0 | 17 | 1.39 |
| Chrysler (5)               | 153.9    | 15 | 289.5  | 12 | 9.7  | 26  | 15.9  | 24  | 6.3 | 5.8 | 17.5 | 22 | 1.19 |
| Chrysler                   | 1545.0   | 35 | 2916.0 | 31 | 86.0 | 62  | 160.0 | 51  | 5.6 | 4.6 | 15.3 | 17 | 3.19 |
| Chrysler (4)               | 610.0    | 17 | 1107.2 | 15 | 39.0 | 31  | 60.8  | 31  | 6.4 | 5.8 | 15.2 | 17 | 1.92 |
| Chrysler Industries        | 161.7    | 16 | 313.7  | 18 | 5.4  | 21  | 10.6  | 34  | 3.4 | 3.2 | 12.8 | 12 | 1.41 |
| Chrysler-Mogul             | 474.8    | 18 | 935.1  | 15 | 20.4 | 33  | 35.4  | 55  | 4.3 | 3.8 | 8.3  | 23 | 1.32 |
| Chrysler Mfg. (9)          | 208.4    | 42 | 401.5  | 37 | 14.8 | 50  | 25.8  | 33  | 7.1 | 6.7 | 18.1 | 18 | 1.58 |
| Chrysler (A. O.)           | 350.2    | 11 | 690.0  | 13 | 18.0 | 19  | 33.7  | 20  | 5.1 | 4.8 | 16.9 | 12 | 2.33 |
| Chrysler Motor Products    | 187.6    | 16 | 334.8  | 16 | 8.2  | 21  | 11.0  | 14  | 4.4 | 4.2 | 11.1 | 12 | 1.51 |

### Tires & Rubber

INDUSTRY COMPOSITE 3539.7 3 6910.1 4 212.3 9 370.2 15 6.0 5.7 21.1 13 2.76

|                        |        |    |        |    |       |    |       |    |      |      |      |    |      |
|------------------------|--------|----|--------|----|-------|----|-------|----|------|------|------|----|------|
| Goodyear               | 158.0  | 6  | 289.7  | 5  | 21.6  | 12 | 37.1  | 12 | 13.7 | 12.9 | 19.6 | 18 | 3.03 |
| Goodyear Tire & Rubber | 329.3  | 13 | 658.5  | 15 | 27.5  | 14 | 54.0  | 10 | 8.3  | 8.2  | 18.7 | 19 | 1.28 |
| Goodyear Tire & Rubber | 3052.3 | 2  | 5961.9 | 3  | 163.2 | 7  | 279.2 | 17 | 5.3  | 5.1  | 21.9 | 10 | 3.53 |

and quarter ended May 31. (2) Second quarter ended Apr. 30. (3) Third quarter and most recent six months ended June 30. (4) Third quarter and most recent six months ended May 31. (5) Third quarter and most recent six months ended Apr. 30. (6) Fourth quarter and most recent six months ended June 30. (7) Fourth quarter and most recent six months ended May 31. (8) Third quarter and most recent six months ended Apr. 30. (9) First quarter and most recent six months ended June 30. (10) First quarter and most recent six months ended May 31. (11) First quarter and most recent six months ended Apr. 30. \*Sales include excise taxes. \*\*Sales include other income. \*\*\*Sales include excise taxes and other income. †Revenues from major subsidiaries not included in consolidated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; they include all common-stock equivalents but exclude extraordinary items. NA = not available. NM = not meaningful.

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF MCGRAW-HILL, INC.



# CORPORATE SCOREBOARD

| COMPANY                                         | SALES                             |                             |                                |                             | PROFITS                           |                             |                                |                             | MARGINS                     |                             |      | RETURN ON<br>COMMON<br>EQUITY<br>12 MONTHS<br>ENDING<br>6-30 | PRICE-<br>EARNINGS<br>RATIO<br>7-22 | MO<br>EARN-<br>ING<br>F<br>S |
|-------------------------------------------------|-----------------------------------|-----------------------------|--------------------------------|-----------------------------|-----------------------------------|-----------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|------|--------------------------------------------------------------|-------------------------------------|------------------------------|
|                                                 | 2ND<br>QUARTER<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>% | 2ND<br>QUARTER<br>1993<br>% |      |                                                              |                                     |                              |
| 3 BANKS                                         |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |      |                                                              |                                     |                              |
| INDUSTRY COMPOSITE                              | 50868.5                           | 9                           | 99314.1                        | 7                           | 7263.5                            | 17                          | 14037.1                        | 23                          | 14.3                        | 13.4                        | 16.3 | 9                                                            | 4.                                  |                              |
| (a)BANKS - EAST<br>GROUP COMPOSITE              | 25629.1                           | 11                          | 50056.1                        | 8                           | 3243.5                            | 17                          | 6205.5                         | 34                          | 12.7                        | 12.0                        | 16.9 | 8                                                            | 4.                                  |                              |
| Bank of Boston                                  | 873.9                             | 27                          | 1627.8                         | 18                          | 94.5                              | 32                          | 197.2                          | 51                          | 10.8                        | 10.4                        | 12.5 | 9                                                            | 2                                   |                              |
| Bank of New York                                | 981.0                             | 10                          | 1888.0                         | 6                           | 176.0                             | 49                          | 355.0                          | 41                          | 17.9                        | 13.3                        | 16.5 | 9                                                            | 3                                   |                              |
| Bankers Trust New York                          | 1637.0**                          | 16                          | 3218.0                         | 17                          | 181.0                             | -28                         | 345.0                          | -28                         | 11.1                        | 17.7                        | 21.3 | 6                                                            | 10                                  |                              |
| BayBanks                                        | 210.3**                           | 7                           | 406.5                          | 4                           | 26.4                              | 86                          | 48.6                           | 80                          | 12.6                        | 7.2                         | 12.3 | 13                                                           | 4                                   |                              |
| Chase Manhattan                                 | 2445.0                            | 13                          | 4668.0                         | 5                           | 307.0                             | 32                          | 671.0                          | NM                          | 12.6                        | 10.7                        | 16.5 | 6                                                            | 6                                   |                              |
| Chemical Banking                                | 3086.0**                          | -3                          | 6107.0                         | -2                          | 357.0                             | -6                          | 676.0                          | -6                          | 11.6                        | 12.0                        | 14.9 | 7                                                            | 5                                   |                              |
| Citicorp                                        | 8135.0                            | 17                          | 15852.0                        | 13                          | 877.0                             | 97                          | 1486.0                         | 82                          | 10.8                        | 6.4                         | 20.7 | 8                                                            | 5                                   |                              |
| CoreStates Financial                            | 615.2**                           | 2                           | 1210.3                         | 2                           | 63.1                              | -31                         | 33.1                           | -81                         | 10.3                        | 15.2                        | 10.1 | 15                                                           | 1                                   |                              |
| First Fidelity Bancorporation                   | 611.4                             | 2                           | 1332.1                         | 12                          | 111.6                             | 14                          | 220.5                          | 16                          | 18.3                        | 16.3                        | 16.0 | 10                                                           | 4                                   |                              |
| Fleet Financial Group                           | 1028.6**                          | -2                          | 2049.7                         | -3                          | 152.2                             | 28                          | 285.3                          | 27                          | 14.8                        | 11.3                        | 16.4 | 10                                                           | 3                                   |                              |
| Integra Financial                               | 257.8                             | -3                          | 518.1                          | -3                          | 41.8                              | 8                           | 88.5                           | 13                          | 16.2                        | 14.5                        | 17.0 | 10                                                           | 4                                   |                              |
| Mellon Bank                                     | 868.0**                           | 15                          | 1728.0                         | 11                          | 134.0                             | 35                          | 265.0                          | 99                          | 15.4                        | 13.1                        | 15.4 | 9                                                            | 6                                   |                              |
| Midlantic                                       | 262.0**                           | 4                           | 513.5                          | 1                           | 72.3                              | 77                          | 125.6                          | 394                         | 27.6                        | 16.2                        | 20.4 | 7                                                            | 4                                   |                              |
| Morgan (J. P.)                                  | 2031.0                            | 11                          | 3868.0                         | 6                           | 350.0                             | -19                         | 695.0                          | -19                         | 17.2                        | 23.6                        | 16.4 | 8                                                            | 7                                   |                              |
| PNC Bank                                        | 1143.4                            | 18                          | 2237.0                         | 17                          | 187.8                             | 11                          | 393.5                          | 11                          | 16.4                        | 17.5                        | 18.2 | 9                                                            | 3                                   |                              |
| Republic New York                               | 516.3                             | 9                           | 1000.6                         | 4                           | 79.4                              | 6                           | 159.2                          | 11                          | 15.4                        | 15.9                        | 14.7 | 8                                                            | 5                                   |                              |
| Shawmut National                                | 549.6                             | 3                           | 1081.8                         | 3                           | -18.7                             | NM                          | 58.6                           | 9                           | NM                          | 12.0                        | 15.0 | 8                                                            | 2                                   |                              |
| State Street Boston                             | 377.7                             | 17                          | 749.7                          | 19                          | 51.0                              | 18                          | 102.3                          | 19                          | 13.5                        | 13.4                        | 17.2 | 15                                                           | 2                                   |                              |
| (b)BANKS - MIDWEST<br>GROUP COMPOSITE           | 10592.0                           | 7                           | 20568.6                        | 4                           | 1758.4                            | 15                          | 3479.4                         | 14                          | 16.6                        | 15.5                        | 17.1 | 10                                                           | 3.                                  |                              |
| Banc One                                        | 1888.3**                          | 6                           | 3747.7                         | 4                           | 315.9                             | 12                          | 628.8                          | 14                          | 16.7                        | 15.8                        | 17.0 | 10                                                           | 3                                   |                              |
| Boatmen's Bancshares                            | 553.8**                           | 7                           | 1079.5                         | 7                           | 88.0                              | 10                          | 173.6                          | 9                           | 15.9                        | 15.4                        | 15.4 | 11                                                           | 3                                   |                              |
| Comerica                                        | 629.5**                           | 13                          | 1196.8                         | 7                           | 99.2                              | 18                          | 190.0                          | 14                          | 15.8                        | 15.0                        | 15.7 | 9                                                            | 3                                   |                              |
| Continental Bank                                | 368.0                             | 8                           | 721.0                          | 2                           | 77.0                              | 26                          | 140.0                          | 15                          | 20.9                        | 17.9                        | 15.2 | 8                                                            | 4                                   |                              |
| Fifth Third Bancorp                             | 262.3                             | 11                          | 515.0                          | 10                          | 57.4                              | 20                          | 112.2                          | 21                          | 21.9                        | 20.2                        | 17.8 | 15                                                           | 3                                   |                              |
| First Bank System                               | 425.9                             | -12                         | 818.4                          | -15                         | 102.7                             | 207                         | 201.2                          | 81                          | 24.1                        | 7.0                         | 16.7 | 11                                                           | 3                                   |                              |
| First Chicago                                   | 1105.2                            | 14                          | 2119.8                         | 10                          | 168.7                             | 0                           | 362.5                          | 4                           | 15.3                        | 17.4                        | 21.0 | 6                                                            | 8                                   |                              |
| First of America Bank                           | 456.3**                           | 2                           | 887.8                          | 0                           | 53.2                              | -11                         | 111.5                          | -6                          | 11.7                        | 13.3                        | 15.6 | 9                                                            | 4                                   |                              |
| Firststar                                       | 309.1**                           | 3                           | 607.8                          | 2                           | 42.5                              | -16                         | 95.7                           | -5                          | 13.8                        | 16.8                        | 16.6 | 11                                                           | 3                                   |                              |
| KeyCorp                                         | 1102.6                            | 4                           | 2147.6                         | 2                           | 221.8                             | 13                          | 430.4                          | 11                          | 20.1                        | 18.5                        | 16.8 | 9                                                            | 3                                   |                              |
| Mercantile Bancorporation                       | 240.5                             | 12                          | 478.8                          | 3                           | 40.2                              | 19                          | 79.1                           | 18                          | 16.7                        | 15.7                        | 14.3 | 10                                                           | 3                                   |                              |
| National City                                   | 565.6                             | 6                           | 1110.0                         | 4                           | 105.8                             | 3                           | 209.6                          | 6                           | 18.7                        | 19.2                        | 16.7 | 10                                                           | 2                                   |                              |
| NBD Bancorp                                     | 823.1                             | 6                           | 1577.0                         | 1                           | 135.2                             | 10                          | 258.1                          | 9                           | 16.4                        | 15.8                        | 15.4 | 10                                                           | 3                                   |                              |
| Northern Trust                                  | 378.2**                           | 21                          | 711.6                          | 15                          | 48.7                              | 17                          | 94.1                           | 15                          | 12.9                        | 13.3                        | 17.2 | 12                                                           | 3                                   |                              |
| Norwest                                         | 1483.7                            | 10                          | 2849.7                         | 9                           | 202.0                             | 20                          | 392.5                          | 20                          | 13.6                        | 12.5                        | 20.2 | 11                                                           | 2                                   |                              |
| (c)BANKS - SOUTH & SOUTHEAST<br>GROUP COMPOSITE | 7815.4                            | 14                          | 15290.0                        | 12                          | 1224.2                            | 20                          | 2401.6                         | 23                          | 15.7                        | 14.8                        | 15.5 | 10                                                           | 4.                                  |                              |
| Barnett Banks                                   | 753.3                             | -4                          | 1490.3                         | -6                          | 121.2                             | 16                          | 239.2                          | 22                          | 16.1                        | 13.3                        | 16.0 | 10                                                           | 4                                   |                              |
| Crestar Financial                               | 263.9                             | 10                          | 516.7                          | 9                           | 42.6                              | 26                          | 83.1                           | 29                          | 16.1                        | 14.1                        | 14.3 | 11                                                           | 4                                   |                              |
| First Union                                     | 1501.0**                          | 7                           | 2932.0                         | 6                           | 229.6                             | 1                           | 452.1                          | 6                           | 15.3                        | 16.1                        | 15.6 | 9                                                            | 4                                   |                              |
| NationsBank                                     | 2988.0                            | 28                          | 5857.0                         | 27                          | 437.0                             | 43                          | 854.0                          | 45                          | 14.6                        | 13.2                        | 15.3 | 9                                                            | 5                                   |                              |
| Regions Financial                               | 199.1                             | 30                          | 389.9                          | 28                          | 35.4                              | 27                          | 69.2                           | 25                          | 17.8                        | 18.3                        | 14.3 | 11                                                           | 3                                   |                              |
| Signet Banking                                  | 335.7**                           | 19                          | 653.7                          | 18                          | 50.4                              | 25                          | 103.5                          | 32                          | 15.0                        | 14.3                        | 19.6 | 11                                                           | 3                                   |                              |
| SouthTrust                                      | 287.3                             | 13                          | 550.3                          | 10                          | 42.4                              | 14                          | 83.1                           | 15                          | 14.8                        | 14.6                        | 14.8 | 10                                                           | 2                                   |                              |
| SunTrust Banks                                  | 781.4                             | 4                           | 1530.9                         | 1                           | 131.4                             | 11                          | 258.5                          | 10                          | 16.8                        | 15.7                        | 14.5 | 12                                                           | 4                                   |                              |
| Wachovia                                        | 705.8                             | 7                           | 1369.2                         | 4                           | 134.1                             | 9                           | 258.9                          | 6                           | 19.0                        | 18.7                        | 16.4 | 11                                                           | 2                                   |                              |
| (d)BANKS - WEST & SOUTHWEST<br>GROUP COMPOSITE  | 6832.0                            | 1                           | 13399.4                        | -1                          | 1037.4                            | 16                          | 1950.5                         | 13                          | 15.2                        | 13.3                        | 14.2 | 11                                                           | 5.                                  |                              |
| Bancorp Hawaii                                  | 229.5                             | 1                           | 452.5                          | 0                           | 34.2                              | 1                           | 68.6                           | 3                           | 14.9                        | 14.9                        | 14.1 | 11                                                           | 3                                   |                              |
| BankAmerica                                     | 3642.0                            | 1                           | 7164.0                         | -1                          | 525.0                             | 8                           | 1038.0                         | 7                           | 14.4                        | 13.5                        | 12.8 | 10                                                           | 4                                   |                              |
| First Interstate Bancorp                        | 1043.2**                          | 7                           | 2028.9                         | 4                           | 208.2                             | 53                          | 392.3                          | 54                          | 20.0                        | 14.0                        | 19.5 | 9                                                            | 8                                   |                              |
| U. S. Bancorp                                   | 447.0                             | -1                          | 875.1                          | -2                          | 51.3                              | -19                         | 22.9                           | -82                         | 11.5                        | 14.1                        | 9.0  | 18                                                           | 1                                   |                              |
| Union Bank                                      | 274.3                             | -2                          | 539.0                          | -6                          | 12.7                              | -51                         | 20.8                           | -58                         | 4.6                         | 9.3                         | 4.1  | 25                                                           | 1                                   |                              |
| Wells Fargo                                     | 1196.0                            | 1                           | 2340.0                         | -2                          | 206.0                             | 38                          | 408.0                          | 59                          | 17.2                        | 12.5                        | 19.5 | 12                                                           | 12                                  |                              |
| 4 CHEMICALS                                     |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |      |                                                              |                                     |                              |
| INDUSTRY COMPOSITE                              | 33009.2                           | 5                           | 62729.8                        | 4                           | 2294.7                            | 44                          | 3960.2                         | 22                          | 7.0                         | 5.1                         | 10.7 | 29                                                           | 1.4                                 |                              |
| Air Products & Chemicals (3)                    | 868.4                             | 5                           | 1727.0                         | 4                           | 65.8                              | -7                          | 79.3                           | -46                         | 7.6                         | 8.6                         | 6.7  | 37                                                           | 1.2                                 |                              |
| Albemarle                                       | 269.9                             | 19                          | 511.7                          | 16                          | 15.3                              | 278                         | 25.4                           | 171                         | 5.7                         | 1.8                         | NA   | 24                                                           | 0.7                                 |                              |
| Arco Chemical                                   | 824.0                             | 3                           | 1581.0                         | 1                           | 68.0                              | 45                          | 113.0                          | 14                          | 8.3                         | 5.9                         | 14.5 | 19                                                           | 2                                   |                              |
| Crompton & Knowles                              | 154.5                             | 5                           | 288.0                          | 2                           | 16.1                              | 3                           | 28.9                           | 3                           | 10.4                        | 10.6                        | 21.2 | 17                                                           | 1.0                                 |                              |
| Dexter                                          | 247.1                             | 8                           | 480.6                          | 8                           | 11.0                              | 12                          | 20.3                           | 16                          | 4.4                         | 4.3                         | 11.1 | 17                                                           | 1                                   |                              |
| Dow Chemical                                    | 4934.0**                          | 2                           | 9475.0                         | 3                           | 251.0                             | 68                          | 424.0                          | -23                         | 5.1                         | 3.1                         | 6.4  | 36                                                           | 1.8                                 |                              |
| DuPont                                          | 10439.0**                         | 8                           | 19834.0                        | 5                           | 792.0                             | 53                          | 1434.0                         | 42                          | 7.6                         | 5.3                         | 8.6  | 42                                                           | 1                                   |                              |
| Eastman Chemical                                | 1047.0                            | 3                           | 2030.0                         | 4                           | 83.0                              | -10                         | 139.0                          | -17                         | 7.9                         | 9.1                         | 22.0 | NA                                                           | NA                                  |                              |
| Engelhard                                       | 633.4**                           | 12                          | 1191.1                         | 13                          | 31.9                              | 12                          | 54.6                           | 8                           | 5.0                         | 5.1                         | 3.7  | 98                                                           | 0.7                                 |                              |
| Ethyl                                           | 276.1                             | -44                         | 665.2                          | -31                         | 30.4                              | -1                          | 50.6                           | -11                         | 11.0                        | 6.2                         | 23.5 | 16                                                           | 0.7                                 |                              |
| Ferro                                           | 300.2                             | 7                           | 583.5                          | 9                           | 12.0                              | -12                         | 23.3                           | -13                         | 4.0                         | 4.9                         | 15.2 | 14                                                           | 1                                   |                              |

# CORPORATE SCOREBOARD

| COMPANY              | SALES                       |                       |                          |                       | PROFITS                     |                       |                          |                       | MARGINS               |                       | RETURN ON COMMON EQUITY<br>12 MONTHS<br>ENDING 6-30 | PRICE-<br>EARNINGS<br>RATIO 7-22 | 12 MONTHS'<br>EARNINGS<br>PER SHARE |
|----------------------|-----------------------------|-----------------------|--------------------------|-----------------------|-----------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------------------------------------|----------------------------------|-------------------------------------|
|                      | 2ND QUARTER 1994<br>\$ MIL. | CHANGE FROM 1993<br>% | 6 MONTHS 1994<br>\$ MIL. | CHANGE FROM 1993<br>% | 2ND QUARTER 1994<br>\$ MIL. | CHANGE FROM 1993<br>% | 6 MONTHS 1994<br>\$ MIL. | CHANGE FROM 1993<br>% | 2ND QUARTER 1994<br>% | 2ND QUARTER 1993<br>% |                                                     |                                  |                                     |
| ler (H. B.) (1)      | 272.4                       | 10                    | 514.9                    | 8                     | 9.3                         | 6                     | 13.3                     | 16                    | 3.4                   | 3.5                   | 9.4                                                 | 23                               | 1.67                                |
| on                   | 284.5                       | 16                    | 545.8                    | 14                    | 12.8                        | 161                   | 19.8                     | 296                   | 4.5                   | 2.0                   | 8.5                                                 | 37                               | 0.74                                |
| orgia Gulf           | 208.2                       | 7                     | 401.1                    | 6                     | 20.0                        | 74                    | 32.7                     | 51                    | 9.6                   | 5.9                   | NM                                                  | 29                               | 1.26                                |
| odrich (B. F.)       | 540.5                       | 19                    | 1042.9                   | 26                    | 18.5                        | 208                   | 23.4                     | NM                    | 3.4                   | 1.3                   | 4.1                                                 | 36                               | 1.23                                |
| ace (W. R.)          | 1236.9                      | 13                    | 2313.7                   | 11                    | 65.7                        | 22                    | 103.9                    | 21                    | 5.3                   | 4.9                   | 10.0                                                | 25                               | 1.59                                |
| eat Lakes Chemical   | 535.8**                     | 14                    | 995.5                    | 10                    | 67.7                        | -3                    | 134.6                    | 0                     | 12.6                  | 14.9                  | 20.6                                                | 15                               | 3.84                                |
| inna (M. A.)         | 452.5**                     | 18                    | 868.5                    | 16                    | 11.9                        | 47                    | 20.2                     | 60                    | 2.6                   | 2.1                   | 9.9                                                 | 22                               | 1.22                                |
| ctite                | 177.8                       | 12                    | 337.7                    | 10                    | 20.2                        | 16                    | 38.5                     | 4                     | 11.4                  | 11.0                  | 18.7                                                | 22                               | 1.97                                |
| brizol               | 408.5                       | 4                     | 808.2                    | 6                     | 49.1                        | 57                    | 92.4                     | 38                    | 12.0                  | 7.9                   | 13.4                                                | 22                               | 1.67                                |
| ondell Petrochemical | 900.0                       | -17                   | 1724.0                   | -20                   | 32.0                        | NM                    | 54.0                     | NM                    | 3.6                   | NM                    | NM                                                  | 25                               | 0.97                                |
| nsanto               | 2269.0                      | 2                     | 4270.0                   | 2                     | 258.0                       | 29                    | 452.0                    | 33                    | 11.4                  | 9.0                   | 18.9                                                | 15                               | 5.09                                |
| Industries           | 237.1                       | 7                     | 438.9                    | 5                     | -15.5                       | NM                    | -21.9                    | NM                    | NM                    | NM                    | NM                                                  | NM                               | -1.24                               |
| in                   | 708.1                       | 13                    | 1313.0                   | 8                     | 27.6                        | 93                    | 42.9                     | 65                    | 3.9                   | 2.3                   | -16.7                                               | NM                               | -3.76                               |
| axair                | 645.0                       | 4                     | 1256.0                   | 3                     | 55.0                        | 45                    | 97.0                     | 37                    | 8.5                   | 6.1                   | 25.0                                                | 17                               | 1.23                                |
| hm & Haas            | 944.0**                     | 7                     | 1800.0                   | 5                     | 95.0                        | 51                    | 162.0*                   | 34                    | 10.1                  | 7.1                   | 11.8                                                | 29                               | 2.34                                |
| ulman (A.) (4)       | 203.8                       | 10                    | 371.8                    | 8                     | 12.1                        | 18                    | 21.0                     | 16                    | 5.9                   | 5.5                   | 13.2                                                | 23                               | 1.14                                |
| otts (3)             | 200.9                       | 29                    | 408.3                    | 29                    | 9.4                         | 18                    | 22.4                     | 19                    | 4.7                   | 5.1                   | 15.2                                                | 13                               | 1.25                                |
| ra Industries        | 818.3**                     | 25                    | 1077.8                   | 31                    | 47.9                        | 21                    | 41.6                     | 35                    | 5.9                   | 6.1                   | 11.7                                                | 16                               | 0.47                                |
| ion Carbide          | 1177.0                      | -5                    | 2303.0                   | -6                    | 73.0                        | 78                    | 136.0                    | 64                    | 6.2                   | 3.3                   | 14.2                                                | 20                               | 1.32                                |
| ellman               | 229.8                       | 7                     | 452.4                    | 7                     | 16.1                        | 26                    | 27.4                     | -21                   | 7.0                   | 6.0                   | 6.4                                                 | 28                               | 1.00                                |
| eco                  | 565.6                       | 3                     | 1119.0                   | 1                     | 32.4                        | 117                   | 54.4                     | 61                    | 5.7                   | 2.7                   | 4.6                                                 | 37                               | 0.78                                |

## CONGLOMERATES

|                          |           |    |         |    |        |     |        |    |      |      |       |    |       |
|--------------------------|-----------|----|---------|----|--------|-----|--------|----|------|------|-------|----|-------|
| INDUSTRY COMPOSITE       | 45315.3   | 9  | 86547.7 | 8  | 2686.7 | 57  | 4645.1 | 29 | 5.9  | 4.1  | 18.9  | 16 | 2.81  |
| co Standard (3)          | 2001.3**  | 29 | 3970.7  | 31 | -48.3  | NM  | -10.3  | NM | NM   | 2.0  | -5.8  | NM | -1.47 |
| iedSignal                | 3187.0    | 4  | 6173.0  | 4  | 196.0  | 17  | 365.0  | 17 | 6.2  | 5.5  | 28.0  | 15 | 2.50  |
| itec Industries          | 337.0     | 1  | 668.9   | -1 | 24.4   | 306 | 45.0   | 92 | 7.2  | 1.8  | NM    | 16 | 1.25  |
| rt Group (11)            | 359.3     | 13 | 746.2   | 13 | 1.1    | 99  | -6.2   | NM | 0.3  | 0.2  | -2.3  | NM | -3.62 |
| al                       | 931.9     | 20 | 1716.9  | 22 | 43.4   | 30  | 60.6   | 36 | 4.7  | 4.3  | 26.6  | 14 | 1.47  |
| neral Electric           | 16196.2** | 10 | 30378.2 | 10 | 1522.1 | 132 | 2590.1 | 49 | 9.4  | 4.4  | 20.8  | 16 | 3.09  |
| neral Host (11)          | 185.2     | -2 | 351.5   | 0  | 9.4    | 43  | -32.4  | NM | 5.1  | 3.5  | -44.3 | NM | -2.49 |
| rcourt General (2)       | 966.0**   | 4  | 1798.2  | 3  | 11.3   | 100 | 31.3   | -4 | 1.2  | 0.6  | 17.9  | 17 | 2.06  |
| ational Intergroup (9)   | 6400.0    | 10 | 11948.0 | 7  | 258.0  | -11 | 459.0  | 2  | 4.0  | 5.0  | 13.1  | 11 | 7.44  |
| ll (5)                   | 1256.9    | -2 | 2611.8  | 0  | 5.2    | -1  | 21.8   | NM | 0.4  | 0.4  | 6.8   | 19 | 0.94  |
| mark International       | 177.8     | 3  | 347.5   | 2  | 27.8   | 11  | 49.8   | 76 | 15.6 | 14.5 | 17.9  | 18 | 0.87  |
|                          | 831.3     | 9  | 1632.9  | 11 | 56.9   | 39  | 94.7   | 46 | 6.8  | 5.4  | 25.1  | 14 | 3.02  |
| ckwell International (3) | 2873.0    | 2  | 5634.5  | 2  | 164.9  | 12  | 319.6  | 13 | 5.7  | 5.2  | 19.9  | 13 | 2.80  |
| edyne                    | 595.8     | -5 | 1168.7  | -7 | 11.0   | 36  | -44.1  | NM | 1.8  | 1.3  | -5.8  | NM | -0.25 |
| aneco                    | 3509.0    | 1  | 6779.0  | 1  | 171.0  | 61  | 295.0  | 64 | 4.9  | 3.1  | 20.6  | 15 | 3.08  |
| atron                    | 2517.0    | 12 | 4925.0  | 12 | 110.0  | 17  | 210.0  | 19 | 4.4  | 4.2  | 14.4  | 11 | 4.55  |
| W                        | 2317.0    | 15 | 4476.4  | 11 | 86.6   | 57  | 150.6  | 42 | 3.7  | 2.7  | 16.1  | 17 | 4.05  |
| nitman                   | 673.5     | 6  | 1220.4  | 5  | 35.8   | 23  | 45.6   | 22 | 5.3  | 4.6  | 23.1  | 15 | 1.07  |

## CONSUMER PRODUCTS

|                        |         |    |          |    |        |     |        |     |     |      |      |    |       |
|------------------------|---------|----|----------|----|--------|-----|--------|-----|-----|------|------|----|-------|
| INDUSTRY COMPOSITE     | 58817.8 | 9  | 113261.2 | 8  | 4424.4 | 14  | 8117.0 | 8   | 7.5 | 7.2  | 20.4 | 18 | 1.75  |
| IPAREL                 |         |    |          |    |        |     |        |     |     |      |      |    |       |
| ROUP COMPOSITE         | 6320.9  | 9  | 12277.0  | 6  | 230.4  | -13 | 429.0  | -24 | 3.6 | 4.6  | 11.9 | 20 | 1.50  |
| own Group (11)         | 427.2   | 10 | 809.1    | 8  | 7.9    | 77  | -22.6  | NM  | 1.9 | 1.2  | -1.4 | NM | -0.18 |
| jit of the Loom        | 635.2   | 21 | 1073.4   | 13 | 38.7   | -34 | 63.8   | -38 | 6.1 | 11.2 | 16.2 | 11 | 2.29  |
| rtmarx (1)             | 164.0   | -5 | 341.9    | -5 | -3.1   | NM  | -3.8   | NM  | NM  | NM   | 6.9  | 25 | 0.23  |
| llwood (8)             | 310.9   | 1  | 562.5    | 3  | 11.5   | 11  | 15.0   | 17  | 3.7 | 3.4  | 11.6 | 13 | 1.71  |
| Claiborne              | 490.0   | -3 | 1031.4   | -1 | 15.9   | -49 | 43.3   | -40 | 3.2 | 6.1  | 9.7  | 17 | 1.21  |
| ke (7)                 | 1004.2  | 2  | 1876.0   | -4 | 69.2   | -10 | 132.4  | -20 | 6.9 | 7.8  | 17.3 | 15 | 3.96  |
| ne West Group          | 152.8   | 22 | 303.5    | 24 | 13.7   | 18  | 25.0   | 61  | 9.0 | 9.3  | 32.2 | 17 | 1.66  |
| ford Industries (7)    | 154.0   | 15 | 297.1    | 8  | 4.9    | 37  | 9.4    | 33  | 3.2 | 2.7  | 15.0 | 13 | 2.23  |
| illips-Van Heusen (11) | 238.9   | 8  | 548.0    | 11 | -3.5   | NM  | 9.7    | 30  | NM  | NM   | 17.0 | 14 | 1.55  |
| ebok International     | 776.8   | 18 | 1634.1   | 10 | 51.0   | 24  | 116.8  | 7   | 6.6 | 6.2  | 26.4 | 12 | 2.71  |
| ssell                  | 243.5   | 16 | 475.6    | 15 | 12.7   | 0   | 26.1   | -9  | 5.2 | 6.1  | 7.9  | 26 | 1.15  |
| ide Rite (1)           | 161.7   | -2 | 283.8    | -7 | 7.7    | -60 | 12.5   | -64 | 4.7 | 11.8 | 12.8 | 17 | 0.76  |
|                        | 1186.3  | 13 | 2309.4   | 12 | 58.9   | 6   | 111.8  | 3   | 5.0 | 5.3  | 15.6 | 13 | 3.83  |
| estPoint Stevens       | 375.3   | 6  | 731.1    | 5  | -55.1  | NM  | -110.3 | NM  | NM  | NM   | NM   | NM | -9.57 |

## PLIANCES & HOME FURNISHINGS

|                          |         |     |         |     |       |     |       |     |     |     |       |    |       |
|--------------------------|---------|-----|---------|-----|-------|-----|-------|-----|-----|-----|-------|----|-------|
| ROUP COMPOSITE           | 10365.4 | 21  | 20959.0 | 20  | 409.7 | 38  | 825.1 | 56  | 4.0 | 3.5 | 13.5  | 18 | 1.48  |
| mstrong World Industries | 689.3   | 10  | 1332.0  | 7   | 53.3  | 67  | 101.3 | 135 | 7.7 | 5.1 | 17.4  | 18 | 2.85  |
| st Buy (10)              | 849.4   | 92  | 2042.6  | 94  | 4.2   | 180 | 25.7  | 109 | 0.5 | 0.3 | 14.3  | 23 | 1.04  |
| cuit City Stores (10)    | 1048.7  | 31  | 2455.4  | 29  | 19.7  | 14  | 87.4  | 12  | 1.9 | 2.2 | 18.5  | 16 | 1.39  |
| etter (11)               | 182.0   | 129 | 467.7   | 141 | -3.5  | NM  | 0.3   | -92 | NM  | 0.6 | -31.4 | NM | -1.06 |
| od Guys (3)              | 164.4   | 28  | 334.8   | 35  | 1.9   | 129 | 4.7   | 298 | 1.2 | 0.7 | 11.7  | 12 | 1.02  |
| ilig-Meyers (10)         | 268.8** | 44  | 510.8   | 38  | 18.3  | 36  | 32.6  | 41  | 6.8 | 7.2 | 13.3  | 23 | 1.20  |
| -Z-Boy Chair (8)         | 241.1   | 22  | 433.8   | 18  | 12.3  | 6   | 20.3  | 13  | 5.1 | 5.8 | 11.9  | 14 | 1.90  |
| dd Furniture             | 153.2   | 14  | 292.2   | 8   | 2.7   | 15  | 4.4   | 6   | 1.8 | 1.8 | 2.7   | 43 | 0.18  |
| aggett & Platt           | 448.8   | 21  | 883.4   | 20  | 28.2  | 34  | 54.2  | 34  | 6.3 | 5.6 | 18.4  | 16 | 2.41  |
| vitz Furniture (9)       | 239.0   | 4   | 474.1   | 1   | 0.5   | NM  | 7.1   | NM  | 0.2 | NM  | NM    | 15 | 0.58  |
| asco                     | 1120.0  | 18  | 2170.0  | 15  | 70.1  | 32  | 135.4 | 26  | 6.3 | 5.6 | 11.9  | 16 | 1.60  |
| pytag                    | 870.4   | 16  | 1661.0  | 13  | 41.1  | 93  | 72.1  | 570 | 4.7 | 2.8 | 18.5  | 19 | 1.06  |



# CORPORATE SCOREBOARD

| COMPANY                         | SALES                    |                    |                       |                    | PROFITS                  |                    |                       |                    | MARGINS            |                    |       | RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30 | PRICE-EARNINGS RATIO 7-22 | 1 MON. EARN PER SHA |
|---------------------------------|--------------------------|--------------------|-----------------------|--------------------|--------------------------|--------------------|-----------------------|--------------------|--------------------|--------------------|-------|-----------------------------------------------|---------------------------|---------------------|
|                                 | 2ND QUARTER 1994 \$ MIL. | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL. | CHANGE FROM 1993 % | 2ND QUARTER 1994 \$ MIL. | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL. | CHANGE FROM 1993 % | 2ND QUARTER 1994 % | 2ND QUARTER 1993 % |       |                                               |                           |                     |
| Pier 1 Imports (10)             | 161.5                    | 2                  | 343.4                 | 6                  | 5.5                      | 18                 | -4.6                  | NM                 | 3.4                | 3.0                | 3.4   | 38                                            | 0.1                       |                     |
| Sunbeam-Oster                   | 331.0                    | 13                 | 649.5                 | 11                 | 29.6                     | 20                 | 57.1                  | 18                 | 8.9                | 8.4                | 19.2  | 18                                            | 1.1                       |                     |
| Tandy                           | 1009.3**                 | 20                 | 2001.4                | 17                 | 34.4                     | 8                  | 76.2                  | 5                  | 3.4                | 3.8                | 10.7  | 15                                            | 2.4                       |                     |
| Toro (5)                        | 276.5                    | 15                 | 465.9                 | 18                 | 15.6                     | 23                 | 20.1                  | 38                 | 5.7                | 5.3                | 12.7  | 14                                            | 1.0                       |                     |
| Whirlpool                       | 2013.0**                 | 7                  | 3845.0                | 6                  | 84.0                     | 14                 | 151.0                 | 64                 | 4.2                | 4.0                | 16.6  | 13                                            | 3.9                       |                     |
| Zenith Electronics              | 299.0                    | 9                  | 596.1                 | 5                  | -8.4                     | NM                 | -20.3                 | NM                 | NM                 | NM                 | -39.1 | NM                                            | -1.5                      |                     |
| (c) BEVERAGES                   |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |                                               |                           |                     |
| GROUP COMPOSITE                 | 16997.1                  | 10                 | 31181.1               | 10                 | 1656.5                   | 9                  | 2729.4                | 10                 | 9.7                | 9.9                | 27.7  | 21                                            | 1.7                       |                     |
| Anheuser-Busch                  | 3169.1                   | 6                  | 5796.7                | 6                  | 322.6                    | 5                  | 527.0                 | 5                  | 10.2               | 10.3               | 14.4  | 22                                            | 2.3                       |                     |
| Brown-Forman (8)                | 334.4                    | -2                 | 683.0                 | -2                 | 30.3                     | -7                 | 69.1                  | -1                 | 9.1                | 9.5                | 35.5  | 14                                            | 2.0                       |                     |
| Canandaigua Wine (4)            | 154.2                    | 155                | 294.3                 | 147                | 6.7                      | 96                 | 12.4                  | 95                 | 4.3                | 5.6                | 11.4  | 15                                            | 1.0                       |                     |
| Coca-Cola                       | 4342.0                   | 11                 | 7694.0                | 11                 | 758.0                    | 12                 | 1279.0                | 13                 | 17.5               | 17.4               | 48.5  | 24                                            | 1.8                       |                     |
| Coca-Cola Bottling Consolidated | 200.7                    | 3                  | 364.5                 | 5                  | 6.7                      | 11                 | 8.2                   | 11                 | 3.3                | 3.1                | 58.9  | 17                                            | 1.0                       |                     |
| Coca-Cola Enterprises           | 1610.0                   | 11                 | 2929.0                | 10                 | 38.0                     | 138                | 32.0                  | 167                | 2.4                | 1.1                | 0.2   | NM                                            | 0.0                       |                     |
| Coors (Adolph)                  | 432.2                    | 5                  | 750.7                 | 6                  | 23.9                     | 27                 | 30.8                  | 31                 | 5.5                | 4.6                | -5.5  | NM                                            | -0.9                      |                     |
| Dr Pepper/Seven-Up              | 197.4                    | 8                  | 383.1                 | 8                  | 23.8                     | -21                | 41.5                  | -14                | 12.1               | 16.6               | NM    | 17                                            | 1.3                       |                     |
| PepsiCo                         | 6557.0                   | 11                 | 12285.9               | 12                 | 446.5                    | 5                  | 729.3                 | 6                  | 6.8                | 7.2                | 26.3  | 15                                            | 2.0                       |                     |
| (d) PERSONAL CARE               |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |                                               |                           |                     |
| GROUP COMPOSITE                 | 5383.6                   | 9                  | 10481.0               | 8                  | 440.4                    | 20                 | 843.2                 | 14                 | 8.2                | 7.4                | 32.6  | 20                                            | 2.6                       |                     |
| Avon Products                   | 1007.2                   | 9                  | 1893.2                | 10                 | 72.3                     | 10                 | 103.4                 | 14                 | 7.2                | 7.2                | 119.3 | 16                                            | 3.0                       |                     |
| Colgate-Palmolive               | 1891.1                   | 7                  | 3661.1                | 5                  | 142.5                    | 0                  | 292.1                 | 3                  | 7.5                | 8.0                | 31.6  | 15                                            | 3.5                       |                     |
| Ecolab                          | 282.4                    | 10                 | 542.5                 | 9                  | 21.7                     | 13                 | 37.5                  | 18                 | 7.7                | 7.4                | 21.1  | 16                                            | 1.2                       |                     |
| Gillette                        | 1406.5                   | 14                 | 2767.6                | 13                 | 162.2                    | 20                 | 326.2                 | 18                 | 11.5               | 10.9               | 29.8  | 32                                            | 2.1                       |                     |
| Helene Curtis Industries (10)   | 265.7                    | 9                  | 604.3                 | 5                  | 1.4                      | 72                 | 7.9                   | -2                 | 0.5                | 0.3                | 7.5   | 20                                            | 1.5                       |                     |
| NCH (8)                         | 176.6                    | 6                  | 347.2                 | 3                  | 8.7                      | -5                 | 14.4                  | -14                | 4.9                | 5.5                | 10.6  | 16                                            | 3.7                       |                     |
| Stanhome                        | 188.6                    | 1                  | 360.4                 | 2                  | 11.6                     | NM                 | 19.7                  | 291                | 6.2                | NM                 | 18.4  | 13                                            | 2.4                       |                     |
| Tambrands                       | 165.6                    | 11                 | 304.8                 | 0                  | 20.0                     | NM                 | 42.1                  | 46                 | 12.1               | NM                 | 132.5 | 16                                            | 2.3                       |                     |
| (e) TOBACCO                     |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |                                               |                           |                     |
| GROUP COMPOSITE                 | 19750.9                  | 3                  | 38363.2               | 1                  | 1687.4                   | 18                 | 3290.3                | 3                  | 8.5                | 7.5                | 18.5  | 15                                            | 1.6                       |                     |
| American Brands                 | 2124.7                   | 5                  | 4157.6                | 1                  | 163.9                    | 8                  | 313.1                 | -21                | 7.7                | 7.5                | 13.5  | 11                                            | 2.8                       |                     |
| Philip Morris                   | 13532.0                  | 3                  | 26259.0               | 2                  | 1232.0                   | 18                 | 2403.0                | 6                  | 9.1                | 8.0                | 30.9  | 13                                            | 4.2                       |                     |
| RJR Nabisco Holdings            | 3784.0                   | 2                  | 7356.0                | -1                 | 192.0                    | 35                 | 386.0                 | 10                 | 5.1                | 3.8                | -1.1  | NM                                            | -0.0                      |                     |
| UST                             | 310.2*                   | 11                 | 590.6                 | 8                  | 99.5                     | 11                 | 188.2                 | -3                 | 32.1               | 32.1               | 80.1  | 17                                            | 1.7                       |                     |
| 7 CONTAINERS & PACKAGING        |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |                                               |                           |                     |
| INDUSTRY COMPOSITE              | 7855.9                   | 4                  | 15060.1               | 4                  | 184.0                    | 57                 | 232.6                 | 22                 | 2.3                | 1.6                | -3.4  | NM                                            | -0.0                      |                     |
| (a) GLASS, METAL & PLASTIC      |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |                                               |                           |                     |
| GROUP COMPOSITE                 | 2726.5                   | -1                 | 5096.0                | 1                  | 133.4                    | 14                 | 205.6                 | 15                 | 4.9                | 4.3                | -1.3  | NM                                            | -0.1                      |                     |
| Ball                            | 676.6                    | 2                  | 1263.9                | 6                  | 17.2                     | 29                 | 27.7                  | 24                 | 2.5                | 2.0                | -5.5  | NM                                            | -1.0                      |                     |
| Crown Cork & Seal               | 1134.5                   | -3                 | 2077.5                | 0                  | 64.8                     | 14                 | 98.4                  | 14                 | 5.7                | 4.8                | 15.1  | 16                                            | 2.1                       |                     |
| Owens-Illinois                  | 915.4                    | 0                  | 1754.6                | 0                  | 51.4                     | 9                  | 79.5                  | 14                 | 5.6                | 5.1                | -64.5 | NM                                            | -1.6                      |                     |
| (b) PAPER                       |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |                                               |                           |                     |
| GROUP COMPOSITE                 | 5129.4                   | 7                  | 9964.1                | 5                  | 50.6                     | NM                 | 27.0                  | 119                | 1.0                | NM                 | -4.4  | NM                                            | -0.0                      |                     |
| Bemis                           | 337.7                    | 11                 | 661.0                 | 11                 | 18.7                     | 20                 | 32.3                  | 23                 | 5.5                | 5.1                | 13.8  | 24                                            | 1.0                       |                     |
| Federal Paper Board             | 348.0                    | 6                  | 667.5                 | 3                  | 8.2                      | -16                | 11.3                  | -40                | 2.4                | 3.0                | 0.7   | NM                                            | 0.1                       |                     |
| Gaylord Container (3)           | 203.2                    | 8                  | 385.7                 | 4                  | -19.7                    | NM                 | -42.3                 | NM                 | NM                 | NM                 | NM    | NM                                            | -1.6                      |                     |
| Jefferson Smurfit               | 765.9                    | 4                  | 1493.6                | 2                  | -8.4                     | NM                 | -20.2                 | NM                 | NM                 | NM                 | NM    | NA                                            | NM                        |                     |
| Longview Fibre (2)              | 189.2                    | 6                  | 355.3                 | 6                  | 14.0                     | 5                  | 15.8                  | -15                | 7.4                | 7.5                | 9.4   | 28                                            | 0.7                       |                     |
| Paragon Trade Brands            | 146.0                    | 5                  | 289.2                 | 3                  | 7.5                      | 14                 | 15.4                  | 9                  | 5.2                | 4.8                | 25.4  | 6                                             | 4.0                       |                     |
| Riverwood International         | 314.0                    | 9                  | 578.9                 | 7                  | 11.1                     | 193                | 13.5                  | 41                 | 3.5                | 1.3                | 1.4   | NM                                            | 0.1                       |                     |
| Rock-Tenn (3)                   | 181.6                    | 10                 | 354.7                 | 8                  | 10.5                     | 27                 | 20.4                  | 16                 | 5.8                | 5.0                | 12.8  | 15                                            | 1.1                       |                     |
| Sonoco Products                 | 564.4                    | 18                 | 1101.8                | 17                 | 32.8                     | 3                  | 60.9                  | 4                  | 5.8                | 6.6                | 18.9  | 16                                            | 1.3                       |                     |
| Stone Container                 | 1354.3                   | 7                  | 2645.1                | 3                  | -50.8                    | NM                 | -129.7                | NM                 | NM                 | NM                 | -52.7 | NM                                            | -4.2                      |                     |
| Temple-Inland                   | 725.1                    | 3                  | 1431.4                | 3                  | 26.6                     | 27                 | 49.5                  | 1                  | 3.7                | 3.0                | 4.0   | 41                                            | 1.2                       |                     |
| 8 DISCOUNT & FASHION RETAILING  |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |                                               |                           |                     |
| INDUSTRY COMPOSITE              | 89280.6                  | 12                 | 197298.1              | 10                 | 1909.2                   | -16                | 4922.2                | -21                | 2.1                | 2.8                | 11.9  | 24                                            | 1.1                       |                     |
| Ames Department Stores (11)     | 438.3                    | 0                  | 1108.7                | -7                 | -13.6                    | NM                 | 26.8                  | NM                 | NM                 | NM                 | 37.5  | 5                                             | 0.6                       |                     |
| AnnTaylor Stores (11)           | 145.3**                  | 21                 | 279.9                 | 14                 | 8.1                      | 145                | 11.1                  | 411                | 5.5                | 2.7                | 7.1   | 46                                            | 0.8                       |                     |
| AutoZone (4)                    | 358.2                    | 27                 | 661.4                 | 26                 | 28.2                     | 42                 | 49.1                  | 37                 | 7.9                | 7.0                | 22.0  | 33                                            | 0.7                       |                     |
| Baker (J.) (11)                 | 221.3                    | 14                 | 489.9                 | 42                 | 3.2                      | 29                 | 11.2                  | 51                 | 1.4                | 1.3                | 11.8  | 11                                            | 1.7                       |                     |
| Barnes & Noble (11)             | 320.3                    | 17                 | 804.0                 | 18                 | -6.8                     | NM                 | 20.3                  | 28                 | NM                 | NM                 | 1.4   | NM                                            | 0.0                       |                     |
| Bradlees (11)                   | 462.8                    | 1                  | 1059.9                | 1                  | -8.4                     | NM                 | 19.1                  | -10                | NM                 | NM                 | 9.5   | 11                                            | 1.2                       |                     |
| Broadway Stores (11)            | 453.6**                  | -2                 | 1180.6                | -3                 | -18.0                    | NM                 | -36.0                 | NM                 | NM                 | NM                 | -26.1 | NM                                            | -2.3                      |                     |
| Caldor (11)                     | 537.1                    | 16                 | 1395.6                | 15                 | -4.2                     | NM                 | 33.6                  | 5                  | NM                 | NM                 | 14.4  | 12                                            | 2.5                       |                     |
| Carson Pirie Scott (11)         | 256.0**                  | 2                  | 643.7                 | 2                  | 2.8                      | NM                 | 30.0                  | NM                 | 1.1                | NM                 | -78.2 | NA                                            | NM                        |                     |
| Charming Shoppes (11)           | 297.6                    | 8                  | 654.8                 | 7                  | 14.0                     | -14                | 37.7                  | -10                | 4.7                | 5.9                | 13.8  | 14                                            | 0.6                       |                     |
| Consolidated Stores (11)        | 242.3                    | 15                 | 591.9                 | 15                 | 2.4                      | 80                 | 30.7                  | 24                 | 1.0                | 0.6                | 16.9  | 13                                            | 0.9                       |                     |
| Dayton Hudson (11)              | 4465.0**                 | 11                 | 10746.0               | 8                  | 39.0                     | 30                 | 317.0                 | 14                 | 0.9                | 0.7                | 13.4  | 16                                            | 5.1                       |                     |
| Dillard Department Stores (11)  | 1332.0**                 | 10                 | 3011.0                | 8                  | 48.3                     | 0                  | 159.7                 | 1                  | 3.6                | 4.0                | 11.3  | 16                                            | 2.1                       |                     |
| Dollar General (11)             | 287.1                    | 29                 | 670.2                 | 31                 | 9.5                      | 61                 | 31.6                  | 39                 | 3.3                | 2.7                | 20.3  | 22                                            | 0.9                       |                     |
| Edison Brothers Stores (11)     | 326.7                    | -1                 | 778.5                 | -3                 | 2.2                      | -68                | 12.0                  | -72                | 0.7                | 2.1                | 4.3   | 31                                            | 0.8                       |                     |

Footnotes on page 51

# CORPORATE SCOREBOARD

| COMPANY                               | SALES                             |                             |                                |                             | PROFITS                           |                             |                                |                             | MARGINS                     |                             |             | RETURN ON<br>COMMON<br>EQUITY<br>12 MONTHS<br>ENDING<br>6-30 | PRICE-<br>EARNINGS<br>RATIO<br>7-22 | 12<br>MONTHS'<br>EARNINGS<br>PER<br>SHARE |
|---------------------------------------|-----------------------------------|-----------------------------|--------------------------------|-----------------------------|-----------------------------------|-----------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|-------------|--------------------------------------------------------------|-------------------------------------|-------------------------------------------|
|                                       | 2ND<br>QUARTER<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>% | 2ND<br>QUARTER<br>1993<br>% |             |                                                              |                                     |                                           |
| <b>A Distributors (11)</b>            | 176.7                             | 1                           | 363.6                          | 0                           | -3.7                              | NM                          | -1.9                           | NM                          | NM                          | 0.8                         | 1.0         | 58                                                           | 0.08                                |                                           |
| <b>Family Dollar Stores (4)</b>       | 349.2                             | 13                          | 748.0                          | 12                          | 17.6                              | 1                           | 39.6                           | 4                           | 5.0                         | 5.6                         | 18.9        | 11                                                           | 1.19                                |                                           |
| <b>General Department Stores (11)</b> | 1653.6**                          | 4                           | 4001.2                         | 4                           | 32.2                              | 48                          | 178.2                          | 41                          | 1.9                         | 1.4                         | 9.0         | 13                                                           | 1.64                                |                                           |
| <b>Target (11)</b>                    | 446.0                             | 6                           | 808.2                          | 2                           | 16.2                              | 25                          | 26.2                           | 26                          | 3.6                         | 3.1                         | 16.7        | 17                                                           | 1.60                                |                                           |
| <b>Wal-Mart (11)</b>                  | 751.7                             | 17                          | 1811.9                         | 15                          | 63.5                              | 53                          | 172.8                          | 61                          | 8.4                         | 6.5                         | 23.5        | 21                                                           | 1.93                                |                                           |
| <b>Winn-Dixie (11)</b>                | 574.3                             | 20                          | 1056.6                         | 18                          | 4.6                               | 44                          | 5.9                            | -2                          | 0.8                         | 0.7                         | 5.2         | 20                                                           | 0.59                                |                                           |
| <b>Woolco (11)</b>                    | 365.6                             | 7                           | 992.6                          | 7                           | -2.4                              | NM                          | 26.9                           | 49                          | NM                          | NM                          | 14.8        | 9                                                            | 2.04                                |                                           |
| <b>Home Depot (11)</b>                | 2872.1                            | 32                          | 5159.5                         | 29                          | 139.7                             | 31                          | 252.4                          | 24                          | 4.9                         | 4.9                         | 16.6        | 37                                                           | 1.09                                |                                           |
| <b>Kmart Shopping Network (11)</b>    | 274.0                             | 9                           | 548.2                          | 12                          | 1.9                               | -5                          | 8.6                            | NM                          | 0.7                         | 0.8                         | 3.9         | NM                                                           | 0.08                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 7878.0**                          | 6                           | 18298.0                        | 8                           | 18.0                              | -69                         | -597.0                         | NM                          | 0.2                         | 0.8                         | -9.3        | NM                                                           | -0.81                               |                                           |
| <b>Wal-Mart Stores (11)</b>           | 307.9                             | 23                          | 764.9                          | 21                          | 11.3                              | 51                          | 39.4                           | 31                          | 3.7                         | 3.0                         | 21.7        | 28                                                           | 1.63                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 187.0                             | 20                          | 534.5                          | 23                          | 4.9                               | 15                          | 31.5                           | 24                          | 2.6                         | 2.7                         | 24.4        | 16                                                           | 1.20                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 1481.6**                          | -2                          | 3902.4                         | -1                          | 47.3                              | 7                           | 243.6                          | -15                         | 3.2                         | 2.9                         | 16.0        | 17                                                           | 1.09                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 1397.0                            | 41                          | 2542.8                         | 34                          | 51.8                              | 76                          | 77.5                           | 86                          | 3.7                         | 3.0                         | 16.6        | 33                                                           | 1.05                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 1339.3**                          | 0                           | 3336.6                         | -1                          | -157.3                            | NM                          | -96.8                          | NM                          | NM                          | NM                          | NM          | NA                                                           | NM                                  |                                           |
| <b>Wal-Mart Stores (11)</b>           | 2622.0**                          | 8                           | 6329.0                         | 5                           | 112.0                             | 17                          | 477.0                          | 15                          | 4.3                         | 4.0                         | 19.2        | 14                                                           | 2.83                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 2507.5                            | -1                          | 4887.3                         | 7                           | 45.6                              | -39                         | 43.1                           | -18                         | 1.8                         | 2.9                         | 14.0        | 14                                                           | 2.90                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 592.5**                           | 4                           | 1480.6                         | 1                           | 9.0                               | -22                         | 65.0                           | -2                          | 1.5                         | 2.0                         | 6.4         | 15                                                           | 2.28                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 932.3                             | 9                           | 1740.1                         | 8                           | 16.0                              | 14                          | 46.0                           | 16                          | 1.7                         | 1.6                         | 13.4        | 15                                                           | 2.56                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 159.8                             | 41                          | 395.4                          | 34                          | 5.0                               | 31                          | 19.0                           | 27                          | 3.1                         | 3.4                         | 13.3        | 22                                                           | 1.58                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 167.0                             | 64                          | 323.8                          | 62                          | 6.3                               | 117                         | 12.1                           | 112                         | 3.8                         | 2.9                         | 19.9        | 24                                                           | 0.84                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 472.7**                           | 4                           | 1123.4                         | 5                           | -18.8                             | NM                          | 2.7                            | -91                         | NM                          | 2.4                         | -57.0       | NM                                                           | -0.22                               |                                           |
| <b>Wal-Mart Stores (11)</b>           | 762.1                             | 10                          | 1869.5                         | 6                           | 32.0                              | 183                         | 93.0                           | 52                          | 4.2                         | 1.6                         | 13.5        | 22                                                           | 1.96                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 905.2                             | 59                          | 1924.5                         | 61                          | 20.0                              | 72                          | 43.9                           | 64                          | 2.2                         | 2.0                         | 13.8        | 39                                                           | 0.56                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 734.2                             | 5                           | 1267.3                         | 7                           | 17.0                              | 138                         | 16.3                           | NM                          | 2.3                         | 1.0                         | 9.6         | 15                                                           | 0.88                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 4681.0                            | 10                          | 11159.0                        | 5                           | 223.0                             | 30                          | 662.0                          | 21                          | 4.8                         | 4.1                         | 18.8        | 12                                                           | 3.99                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 337.7                             | 13                          | 634.5                          | 11                          | 17.6                              | 31                          | 33.1                           | 28                          | 5.2                         | 4.5                         | 13.1        | 27                                                           | 1.13                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 337.5                             | 2                           | 774.7                          | 2                           | 0.9                               | NM                          | -3.8                           | NM                          | 0.3                         | NM                          | -3.2        | NM                                                           | -0.88                               |                                           |
| <b>Wal-Mart Stores (11)</b>           | 3619.6**                          | 6                           | 7720.9                         | 7                           | 32.0                              | -6                          | 94.3                           | -8                          | 0.9                         | 1.0                         | 7.4         | 24                                                           | 0.62                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 296.4**                           | 9                           | 668.9                          | 9                           | 12.1                              | -32                         | 14.9                           | -60                         | 4.1                         | 6.5                         | 8.6         | 45                                                           | 0.99                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 169.1                             | -39                         | 537.5                          | -27                         | -59.5                             | NM                          | -57.4                          | NM                          | NM                          | 0.4                         | NM          | NM                                                           | -6.76                               |                                           |
| <b>Wal-Mart Stores (11)</b>           | 264.2                             | 10                          | 608.5                          | 9                           | 4.4                               | 23                          | 17.2                           | -13                         | 1.7                         | 1.5                         | 13.2        | 13                                                           | 1.19                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 13007.8                           | 7                           | 25274.1                        | 8                           | 503.4                             | -54                         | 405.5                          | -71                         | 3.9                         | 9.0                         | 15.3        | 14                                                           | 3.55                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 845.9                             | 5                           | 1570.1                         | 6                           | -1.3                              | NM                          | -14.1                          | NM                          | NM                          | 1.0                         | 27.1        | 8                                                            | 0.69                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 514.9                             | 9                           | 977.5                          | 8                           | 5.0                               | -21                         | 15.2                           | -36                         | 1.0                         | 1.3                         | 8.2         | 10                                                           | 0.97                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 675.1                             | 31                          | 1297.2                         | 28                          | 6.5                               | 63                          | 13.0                           | 89                          | 1.0                         | 0.8                         | 9.6         | 32                                                           | 0.52                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 208.3**                           | 6                           | 547.1                          | 3                           | -1.0                              | NM                          | 22.3                           | 24                          | NM                          | NM                          | 8.4         | 11                                                           | 2.02                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 203.6                             | 23                          | 422.4                          | 18                          | 18.6                              | 50                          | 24.2                           | 73                          | 9.1                         | 7.5                         | 11.7        | 22                                                           | 1.47                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 851.7                             | 8                           | 1892.0                         | 6                           | 19.4                              | -15                         | 50.1                           | -4                          | 2.3                         | 2.9                         | 23.8        | 13                                                           | 1.54                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 1461.9                            | 14                          | 5355.4                         | 14                          | 37.6                              | 6                           | 412.1                          | 10                          | 2.6                         | 2.8                         | 15.5        | 21                                                           | 1.65                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 625.3                             | -2                          | 1294.4                         | -3                          | 12.8                              | NM                          | 21.0                           | NM                          | 2.0                         | NM                          | 1.4         | NM                                                           | 0.14                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 186.7                             | 10                          | 462.1                          | 4                           | 3.5                               | 470                         | 21.9                           | 16                          | 1.9                         | 0.4                         | 17.8        | 12                                                           | 1.16                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 414.9**                           | 14                          | 1064.3                         | 13                          | 1.2                               | -49                         | 31.6                           | -8                          | 0.3                         | 0.6                         | 16.3        | 8                                                            | 2.36                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 820.8                             | -2                          | 1711.1                         | -3                          | 9.1                               | 106                         | -35.8                          | NM                          | 1.1                         | 0.5                         | -3.3        | NM                                                           | -0.44                               |                                           |
| <b>Wal-Mart Stores (11)</b>           | 17686.1                           | 27                          | 38046.7                        | 23                          | 498.5                             | 11                          | 1366.5                         | 14                          | 2.8                         | 3.2                         | 21.4        | 24                                                           | 1.04                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 259.3                             | 14                          | 408.9                          | 10                          | 7.4                               | 106                         | -1.4                           | NM                          | 2.8                         | 1.6                         | NM          | 5                                                            | 3.17                                |                                           |
| <b>Wal-Mart Stores (11)</b>           | 1760.0**                          | -18                         | 4576.0                         | -13                         | -38.0                             | NM                          | -149.0                         | NM                          | NM                          | NM                          | -40.1       | NM                                                           | -3.87                               |                                           |
| <b>ELECTRICAL &amp; ELECTRONICS</b>   |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |             |                                                              |                                     |                                           |
| <b>INDUSTRY COMPOSITE</b>             | <b>34093.6</b>                    | <b>17</b>                   | <b>65565.6</b>                 | <b>16</b>                   | <b>2695.4</b>                     | <b>35</b>                   | <b>4874.5</b>                  | <b>29</b>                   | <b>7.9</b>                  | <b>6.8</b>                  | <b>16.9</b> | <b>16</b>                                                    | <b>2.44</b>                         |                                           |
| <b>ELECTRICAL PRODUCTS</b>            |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |             |                                                              |                                     |                                           |
| <b>INDUSTRY COMPOSITE</b>             | <b>5611.3</b>                     | <b>0</b>                    | <b>10457.1</b>                 | <b>-3</b>                   | <b>251.5</b>                      | <b>-6</b>                   | <b>410.8</b>                   | <b>-10</b>                  | <b>4.5</b>                  | <b>4.8</b>                  | <b>3.6</b>  | <b>63</b>                                                    | <b>0.34</b>                         |                                           |
| <b>3M (11)</b>                        | 209.7                             | 12                          | 409.0                          | 9                           | 9.7                               | 55                          | 18.5                           | 50                          | 4.6                         | 3.3                         | -1.3        | NM                                                           | 0.02                                |                                           |
| <b>3M (11)</b>                        | 258.1**                           | 30                          | 434.0                          | 22                          | 24.3                              | 24                          | 35.7                           | 22                          | 9.4                         | 9.9                         | 17.2        | 21                                                           | 1.55                                |                                           |
| <b>3M (11)</b>                        | 1473.6**                          | -9                          | 2790.5                         | -9                          | 83.6                              | -19                         | 132.0                          | -20                         | 5.7                         | 6.4                         | 9.8         | 15                                                           | 2.45                                |                                           |
| <b>3M (11)</b>                        | 261.9                             | 24                          | 469.0                          | 15                          | 26.5                              | 6                           | 50.8                           | 4                           | 10.1                        | 11.8                        | 11.9        | 26                                                           | 2.15                                |                                           |
| <b>3M (11)</b>                        | 481.0                             | 5                           | 920.3                          | 4                           | 22.9                              | 12                          | 39.2                           | 12                          | 4.8                         | 4.5                         | 11.0        | 17                                                           | 1.61                                |                                           |
| <b>3M (11)</b>                        | 391.0                             | 8                           | 752.3                          | 10                          | -7.5                              | NM                          | -6.4                           | NM                          | NM                          | 0.1                         | 0.2         | NM                                                           | 0.04                                |                                           |
| <b>3M (11)</b>                        | 428.0                             | 4                           | 831.0                          | 4                           | 17.0                              | 89                          | 30.0                           | 43                          | 4.0                         | 2.2                         | 10.5        | 24                                                           | 0.81                                |                                           |
| <b>3M (11)</b>                        | 2108.0                            | -2                          | 3851.0                         | -8                          | 75.0                              | -11                         | 111.0                          | -22                         | 3.6                         | 3.9                         | -16.5       | NM                                                           | -0.73                               |                                           |
| <b>ELECTRONICS</b>                    |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |             |                                                              |                                     |                                           |
| <b>INDUSTRY COMPOSITE</b>             | <b>15193.8</b>                    | <b>22</b>                   | <b>29335.3</b>                 | <b>21</b>                   | <b>1015.6</b>                     | <b>35</b>                   | <b>1809.7</b>                  | <b>27</b>                   | <b>6.7</b>                  | <b>6.1</b>                  | <b>15.9</b> | <b>18</b>                                                    | <b>2.61</b>                         |                                           |
| <b>3M (11)</b>                        | 488.1                             | -9                          | 983.2                          | -8                          | 29.4                              | -2                          | 57.5                           | 0                           | 6.0                         | 5.6                         | 15.4        | 11                                                           | 3.56                                |                                           |
| <b>3M (11)</b>                        | 508.8                             | 63                          | 941.3                          | 53                          | 52.0                              | 324                         | 104.9                          | 347                         | 10.2                        | 3.9                         | 38.9        | 21                                                           | 2.79                                |                                           |
| <b>3M (11)</b>                        | 3535.9**                          | 7                           | 7123.2                         | 10                          | 267.3                             | 15                          | 549.4                          | 30                          | 7.6                         | 7.0                         | 14.4        | 14                                                           | 2.70                                |                                           |
| <b>3M (11)</b>                        | 957.1                             | 6                           | 1761.1                         | 6                           | 30.3                              | 26                          | 53.7                           | 27                          | 3.2                         | 2.7                         | 14.9        | 16                                                           | 2.22                                |                                           |
| <b>3M (11)</b>                        | 1344.8                            | 58                          | 2765.4                         | 52                          | 55.0                              | 36                          | 139.3                          | 43                          | 4.1                         | 4.8                         | 17.6        | 12                                                           | 2.89                                |                                           |
| <b>3M (11)</b>                        | 5439.0                            | 38                          | 10132.0                        | 34                          | 367.0                             | 64                          | 665.0                          | 55                          | 6.7                         | 5.7                         | 17.5        | 23                                                           | 2.16                                |                                           |
| <b>3M (11)</b>                        | 2527.0                            | 12                          | 4841.5                         | 9                           | 192.2                             | 7                           | 199.2                          | -41                         | 7.6                         | 7.9                         | 13.1        | 16                                                           | 4.11                                |                                           |
| <b>3M (11)</b>                        | 393.1                             | 20                          | 787.6                          | 21                          | 22.4                              | 87                          | 40.8                           | 92                          | 5.7                         | 3.7                         | 16.8        | 18                                                           | 1.98                                |                                           |
| <b>INSTRUMENTS</b>                    |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |             |                                                              |                                     |                                           |
| <b>INDUSTRY COMPOSITE</b>             | <b>4147.0</b>                     | <b>8</b>                    | <b>8034.8</b>                  | <b>8</b>                    | <b>158.3</b>                      | <b>211</b>                  | <b>274.1</b>                   | <b>78</b>                   | <b>3.8</b>                  | <b>1.3</b>                  | <b>13.7</b> | <b>17</b>                                                    | <b>1.84</b>                         |                                           |
| <b>3M (11)</b>                        | 222.2                             | 0                           | 420.8                          | -1                          | 13.0                              | 11                          | 22.8                           | 4                           | 5.9                         | 5.3                         | -10.9       | NM                                                           | -1.18                               |                                           |
| <b>3M (11)</b>                        | 1463.8                            | 1                           | 2811.7                         | -3                          | 56.9                              | -20                         | 104.6                          | -19                         | 3.9                         | 4.9                         | 17.1        | 14                                                           | 2.25                                |                                           |
| <b>3M (11)</b>                        | 1757.8                            | 10                          | 3439.9                         | 13                          | 45.6                              | 13                          | 71.1                           | 19                          | 2.6                         | 2.5                         | 16.0        | 14                                                           | 3.55                                |                                           |



# CORPORATE SCOREBOARD

| COMPANY                               | SALES                            |                             |                               |                             | PROFITS                          |                             |                               |                             | MARGINS                     |                             |       | RETURN ON<br>COMMON<br>EQUITY<br>12 MONTHS<br>ENDING<br>6-30 | PRICE-<br>EARNINGS<br>RATIO<br>7-22 | MOI'S<br>EARN-<br>P<br>SH |
|---------------------------------------|----------------------------------|-----------------------------|-------------------------------|-----------------------------|----------------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-------|--------------------------------------------------------------|-------------------------------------|---------------------------|
|                                       | 2ND<br>QUARTER<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>% | 2ND<br>QUARTER<br>1993<br>% |       |                                                              |                                     |                           |
|                                       |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |       |                                                              |                                     |                           |
| Tektronix (7)                         | 377.9                            | 7                           | 710.8                         | 7                           | 24.0                             | NM                          | 39.5                          | NM                          | 6.4                         | NM                          | 12.9  | 16                                                           | 2                                   |                           |
| Teradyne                              | 156.5                            | 12                          | 308.5                         | 16                          | 14.6                             | 91                          | 28.1                          | 116                         | 9.4                         | 5.5                         | 12.0  | 18                                                           | 1                                   |                           |
| Tracor                                | 168.8                            | 143                         | 343.2                         | 165                         | 4.1                              | 131                         | 8.0                           | 129                         | 2.5                         | 2.6                         | 20.6  | 13                                                           | 0                                   |                           |
| (d) SEMICONDUCTORS & OTHER COMPONENTS |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |       |                                                              |                                     |                           |
| GROUP COMPOSITE                       | 9141.5                           | 24                          | 17738.5                       | 26                          | 1270.0                           | 38                          | 2379.9                        | 36                          | 13.9                        | 12.5                        | 24.0  | 12                                                           | 3                                   |                           |
| Advanced Micro Devices                | 533.3                            | 30                          | 1046.4                        | 28                          | 93.2                             | 45                          | 177.8                         | 41                          | 17.5                        | 15.7                        | 17.4  | 9                                                            | 2                                   |                           |
| AMP                                   | 1004.0                           | 14                          | 1910.1                        | 11                          | 95.8                             | 27                          | 175.4                         | 18                          | 9.5                         | 8.6                         | 15.2  | 23                                                           | 3                                   |                           |
| Amphenol                              | 173.6                            | 12                          | 329.1                         | 9                           | 10.6                             | 55                          | 17.7                          | 68                          | 6.1                         | 4.4                         | 13.1  | 27                                                           | 0                                   |                           |
| Analog Devices (2)                    | 192.0                            | 18                          | 373.1                         | 19                          | 17.9                             | 76                          | 33.1                          | 81                          | 9.3                         | 6.2                         | 12.6  | 23                                                           | 1                                   |                           |
| Insilco                               | 197.6                            | 7                           | 335.5                         | 8                           | -5.8                             | NM                          | -21.0                         | NM                          | NM                          | NM                          | NM    | NM                                                           | -5                                  |                           |
| Intel                                 | 2770.0                           | 30                          | 5430.0                        | 31                          | 640.0                            | 13                          | 1257.0                        | 13                          | 23.1                        | 26.7                        | 29.2  | 10                                                           | 5                                   |                           |
| LSI Logic                             | 212.1                            | 20                          | 405.9                         | 17                          | 23.4                             | 79                          | 42.8                          | 81                          | 11.1                        | 7.4                         | 22.3  | 19                                                           | 1                                   |                           |
| Micron Technology (4)                 | 426.4                            | 98                          | 816.9                         | 109                         | 104.3                            | 254                         | 191.1                         | 396                         | 24.5                        | 13.7                        | 35.4  | 11                                                           | 3                                   |                           |
| National Semiconductor (7)            | 609.4                            | 9                           | 1154.1                        | 10                          | 82.4                             | 78                          | 146.2                         | 100                         | 13.5                        | 8.3                         | 21.7  | 8                                                            | 1                                   |                           |
| Solextron (4)                         | 365.1                            | 51                          | 692.3                         | 61                          | 14.7                             | 69                          | 27.1                          | 77                          | 4.0                         | 3.6                         | 16.3  | 23                                                           | 1                                   |                           |
| Texas Instruments                     | 2510.0                           | 19                          | 4959.0                        | 24                          | 184.0                            | 66                          | 318.0                         | 62                          | 7.3                         | 5.3                         | 22.2  | 12                                                           | 6                                   |                           |
| VLSI Technology                       | 148.0                            | 16                          | 286.2                         | 17                          | 9.3                              | 216                         | 14.7                          | NM                          | 6.3                         | 2.3                         | 13.6  | 17                                                           | 0                                   |                           |
| 10 FOOD                               |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |       |                                                              |                                     |                           |
| INDUSTRY COMPOSITE                    | 69619.4                          | 3                           | 136957.4                      | 3                           | 1739.6                           | 7                           | 3507.2                        | 46                          | 2.5                         | 2.4                         | 23.4  | 18                                                           | 1                                   |                           |
| (a) FOOD DISTRIBUTION                 |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |       |                                                              |                                     |                           |
| GROUP COMPOSITE                       | 10744.0                          | 2                           | 21099.5                       | 1                           | 97.0                             | -6                          | 180.1                         | -2                          | 0.9                         | 1.0                         | 7.8   | 18                                                           | 1                                   |                           |
| Fleming                               | 2883.6                           | -3                          | 6915.6                        | -1                          | 18.6                             | -31                         | 43.0                          | -33                         | 0.6                         | 0.9                         | 1.5   | 68                                                           | 0                                   |                           |
| International Multifoods (10)         | 579.7                            | 4                           | 1141.5                        | 4                           | 3.0                              | -53                         | -2.1                          | NM                          | 0.5                         | 1.1                         | -6.8  | NM                                                           | -0                                  |                           |
| Nash Finch                            | 670.4**                          | 6                           | 1288.5                        | 5                           | 5.2                              | 4                           | 7.8                           | 4                           | 0.8                         | 0.8                         | 8.1   | 11                                                           | 1                                   |                           |
| Richfood Holdings (8)                 | 403.3                            | 9                           | 698.5                         | 15                          | 7.5                              | 52                          | 12.5                          | 39                          | 1.9                         | 1.3                         | 22.1  | 13                                                           | 1                                   |                           |
| Rykoff-Sexton (8)                     | 394.7                            | 9                           | 767.5                         | 6                           | 2.1                              | 533                         | 2.4                           | NM                          | 0.5                         | 0.1                         | 4.3   | 31                                                           | 0                                   |                           |
| Smart & Final                         | 216.8                            | 10                          | 415.8                         | 12                          | 5.1                              | 12                          | 7.7                           | 11                          | 2.4                         | 2.3                         | 13.7  | 19                                                           | 0                                   |                           |
| Super Food Services (4)               | 253.2**                          | -4                          | 510.7                         | -3                          | 1.8                              | 6                           | 3.8                           | 8                           | 0.7                         | 0.7                         | 7.4   | 13                                                           | 0                                   |                           |
| Super Rite (10)                       | 351.1                            | 12                          | 683.3                         | 7                           | 3.0                              | 50                          | 1.8                           | NM                          | 0.9                         | 0.7                         | 16.7  | 19                                                           | 0                                   |                           |
| Supervalu (10)                        | 4991.1                           | 2                           | 8678.1                        | -1                          | 50.6                             | -1                          | 103.2                         | 2                           | 1.0                         | 1.0                         | 14.6  | 11                                                           | 2                                   |                           |
| (b) FOOD PROCESSING                   |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |       |                                                              |                                     |                           |
| GROUP COMPOSITE                       | 27566.3                          | 5                           | 53933.9                       | 5                           | 1193.7                           | 5                           | 2402.9                        | 15                          | 4.3                         | 4.3                         | 24.2  | 17                                                           | 2                                   |                           |
| American Maize-Products               | 160.9                            | 18                          | 298.8                         | 19                          | 6.1                              | NM                          | 6.8                           | NM                          | 3.8                         | NM                          | 7.3   | 12                                                           | 1                                   |                           |
| Borden                                | 1369.3                           | 1                           | 2642.0                        | 0                           | 11.1                             | -64                         | 16.9                          | -77                         | 0.8                         | 2.3                         | -48.2 | NM                                                           | -0                                  |                           |
| Campbell Soup (5)                     | 1568.0                           | -4                          | 3462.0                        | 1                           | 119.0                            | 13                          | 322.0                         | NM                          | 7.6                         | 6.4                         | 30.7  | 15                                                           | 2                                   |                           |
| ConAgra (7)                           | 5888.4                           | 9                           | 11469.7                       | 10                          | 131.8                            | 28                          | 235.5                         | 21                          | 2.2                         | 1.9                         | 19.4  | 18                                                           | 1                                   |                           |
| CPC International                     | 1856.3                           | 10                          | 3594.0                        | 8                           | -14.9                            | NM                          | 83.2                          | -60                         | NM                          | 6.9                         | 18.9  | 23                                                           | 2                                   |                           |
| Dean Foods (7)                        | 671.5                            | 13                          | 1294.4                        | 12                          | 24.3                             | 22                          | 42.7                          | 19                          | 3.6                         | 3.4                         | 13.5  | 17                                                           | 1                                   |                           |
| Dole Food                             | 986.9                            | 14                          | 1805.7                        | 11                          | 35.7                             | -10                         | 65.4                          | -30                         | 3.6                         | 4.6                         | 4.6   | 34                                                           | 0                                   |                           |
| Dreyer's Grand Ice Cream              | 147.7                            | 20                          | 259.7                         | 15                          | -1.4                             | NM                          | 0.1                           | -98                         | NM                          | 5.6                         | 6.4   | 42                                                           | 0                                   |                           |
| General Mills (7)                     | 2143.5                           | 7                           | 4244.9                        | 6                           | 105.5                            | 56                          | 250.5                         | 20                          | 4.9                         | 3.4                         | 47.7  | 14                                                           | 3                                   |                           |
| Gerber Products (9)                   | 285.1**                          | 1                           | 590.3                         | 0                           | 27.1                             | 2                           | 52.7                          | -24                         | 9.5                         | 9.4                         | 32.9  | 32                                                           | 1                                   |                           |
| Heinz (H. J.) (8)                     | 1945.5                           | -4                          | 3655.7                        | -4                          | 129.1                            | 85                          | 257.6                         | 11                          | 6.6                         | 3.4                         | 26.0  | 14                                                           | 2                                   |                           |
| Hershey Foods                         | 676.0                            | 9                           | 1559.9                        | 3                           | 25.3                             | -3                          | 78.3                          | -40                         | 3.7                         | 4.2                         | 17.2  | 15                                                           | 2                                   |                           |
| Hormel Foods (2)                      | 767.0                            | 13                          | 1483.2                        | 9                           | 23.0                             | 11                          | 43.6                          | 12                          | 3.0                         | 3.1                         | 17.8  | 16                                                           | 1                                   |                           |
| Hudson Foods (3)                      | 266.8                            | 19                          | 523.1                         | 18                          | 8.8                              | 77                          | 13.2                          | 93                          | 3.3                         | 2.2                         | 13.1  | 14                                                           | 1                                   |                           |
| IBP                                   | 3040.1                           | 0                           | 5859.4                        | 1                           | 34.5                             | 68                          | 55.3                          | 69                          | 1.1                         | 0.7                         | 15.9  | 14                                                           | 2                                   |                           |
| Interstate Bakeries (7)               | 267.8                            | -3                          | 604.1                         | -3                          | 3.9                              | -47                         | 1.5                           | -88                         | 1.5                         | 2.7                         | 8.4   | 16                                                           | 0                                   |                           |
| Kellogg                               | 1616.9                           | 5                           | 3228.1                        | 6                           | 151.5                            | 6                           | 335.4                         | 4                           | 9.4                         | 9.3                         | 40.9  | 17                                                           | 3                                   |                           |
| McCormick (1)                         | 396.3                            | 10                          | 764.1                         | 9                           | 19.1                             | 9                           | 37.4                          | 8                           | 4.8                         | 4.9                         | 21.4  | 17                                                           | 1                                   |                           |
| Pilgrim's Pride (3)                   | 238.3                            | 8                           | 461.5                         | 3                           | 7.2                              | 99                          | 15.1                          | 32                          | 3.0                         | 1.6                         | 18.7  | 9                                                            | 0                                   |                           |
| Pioneer Hi-Bred International (4)     | 1038.5                           | 12                          | 1288.5                        | 18                          | 260.3                            | 14                          | 276.5                         | 30                          | 25.1                        | 24.6                        | 25.6  | 15                                                           | 2                                   |                           |
| Ralcorp Holdings (3)                  | 220.5                            | 7                           | 483.2                         | 10                          | 9.6                              | -9                          | 33.3                          | 19                          | 4.4                         | 5.1                         | 44.1  | 12                                                           | 1                                   |                           |
| Ralston Purina Group (3)              | 1223.4                           | -10                         | 2730.8                        | -2                          | 50.9                             | -9                          | 124.2                         | -8                          | 4.2                         | 4.1                         | 73.6  | 12                                                           | 2                                   |                           |
| Smithfield Foods (8)                  | 364.2                            | 18                          | 793.2                         | 22                          | 7.4                              | NM                          | 19.1                          | NM                          | 2.0                         | 0.2                         | 12.9  | 25                                                           | 1                                   |                           |
| Thorn Apple Valley (7)                | 177.8                            | 10                          | 351.1                         | 8                           | 3.6                              | 303                         | 6.6                           | 67                          | 2.0                         | 0.5                         | 15.0  | 10                                                           | 2                                   |                           |
| Universal Foods (3)                   | 249.5                            | 9                           | 486.5                         | 9                           | 15.3                             | 7                           | 29.9                          | 8                           | 6.1                         | 6.3                         | 19.2  | 14                                                           | 2                                   |                           |
| (c) FOOD RETAILING                    |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |       |                                                              |                                     |                           |
| GROUP COMPOSITE                       | 31309.1                          | 1                           | 61924.0                       | 2                           | 448.9                            | 17                          | 924.1                         | 716                         | 1.4                         | 1.2                         | 31.6  | 21                                                           | 0                                   |                           |
| Albertson's (11)                      | 2909.8                           | 7                           | 5971.8                        | 10                          | 85.2                             | 15                          | 212.1                         | 18                          | 2.9                         | 2.7                         | 24.3  | 19                                                           | 1                                   |                           |
| American Stores (11)                  | 4607.6                           | -1                          | 9478.2                        | 0                           | 48.0                             | -15                         | 149.6                         | -1                          | 1.0                         | 1.2                         | 14.3  | 14                                                           | 1                                   |                           |
| Caseys General Stores (8)             | 177.9***                         | 10                          | 350.5                         | 9                           | 2.4                              | 47                          | 6.4                           | 35                          | 1.4                         | 1.0                         | 13.7  | 16                                                           | 0                                   |                           |
| Eagle Food Centers (11)               | 250.1                            | -6                          | 519.6                         | -4                          | -0.4                             | NM                          | -10.9                         | NM                          | NM                          | 0.9                         | -14.6 | NM                                                           | -0                                  |                           |
| Food Lion                             | 1821.9                           | 4                           | 3625.9                        | 6                           | 34.8                             | 13                          | 66.0                          | 25                          | 1.9                         | 1.8                         | 1.8   | NM                                                           | 0                                   |                           |
| Foodarama Supermarkets (2)            | 151.5                            | -10                         | 309.0                         | -10                         | -1.3                             | NM                          | -1.3                          | NM                          | NM                          | 0.2                         | -13.0 | NM                                                           | -3                                  |                           |
| General Nutrition (11)                | 147.7                            | 19                          | 325.6                         | 19                          | 10.5                             | 66                          | 20.8                          | 154                         | 7.1                         | 5.1                         | 19.8  | 20                                                           | 0                                   |                           |
| Giant Food (10)                       | 829.7                            | 2                           | 1988.8                        | 3                           | 20.4                             | -10                         | 56.7                          | -4                          | 2.5                         | 2.8                         | 12.4  | 14                                                           | 1                                   |                           |
| Great Atlantic & Pacific Tea (10)     | 3225.4                           | -2                          | 5587.9                        | -1                          | 7.2                              | -58                         | -12.2                         | NM                          | 0.2                         | 0.5                         | -0.6  | NM                                                           | -0                                  |                           |
| Hannaford Brothers                    | 538.2**                          | 4                           | 1057.3                        | 5                           | 15.4                             | 6                           | 26.5                          | 9                           | 2.9                         | 2.8                         | 13.9  | 17                                                           | 1                                   |                           |
| Kroger                                | 5394.2                           | 1                           | 10723.0                       | 2                           | 70.0                             | 136                         | 125.7                         | 113                         | 1.3                         | 0.6                         | NM    | 12                                                           | 2                                   |                           |
| Penn Traffic (11)                     | 810.0**                          | 6                           | 1655.3                        | 10                          | 2.3                              | 768                         | 9.9                           | 124                         | 0.3                         | 0.0                         | 107.8 | 38                                                           | 0                                   |                           |
| Ruddick (3)                           | 486.6                            | 15                          | 952.5                         | 13                          | 9.3                              | 6                           | 16.7                          | 0                           | 1.9                         | 2.1                         | 9.9   | 15                                                           | 1                                   |                           |

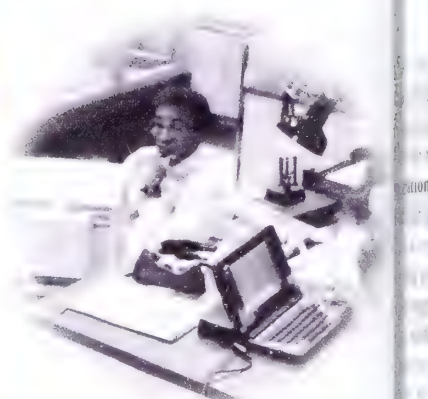
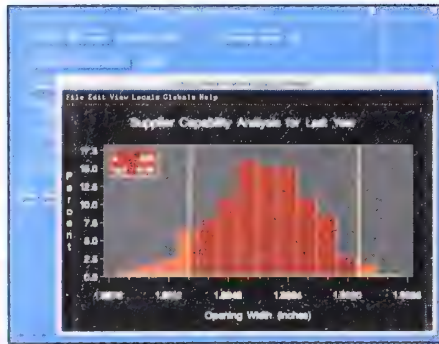
# CORPORATE SCOREBOARD

| COMPANY                                           | SALES                   |                    |                      |                    | PROFITS                 |                    |                      |                    | MARGINS            |                    | RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30 | PRICE-EARNINGS RATIO 7-22 | 12 MONTHS' EARNINGS PER SHARE |
|---------------------------------------------------|-------------------------|--------------------|----------------------|--------------------|-------------------------|--------------------|----------------------|--------------------|--------------------|--------------------|-----------------------------------------------|---------------------------|-------------------------------|
|                                                   | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 % | 2ND QUARTER 1993 % |                                               |                           |                               |
| <b>WAL-MART STORES</b>                            | 3612.7                  | 2                  | 7104.5               | 2                  | 58.9                    | 64                 | 100.8                | 194                | 1.6                | 1.0                | 44.9                                          | 17                        | 1.56                          |
| <b>Wal-Mart Food &amp; Drug Centers</b>           | 748.3                   | 6                  | 1502.1               | 8                  | 11.9                    | -15                | 21.2                 | -24                | 1.6                | 2.0                | 7.2                                           | 16                        | 1.32                          |
| <b>Wal-Mart Supercenters</b>                      | 1738.7***               | -3                 | 3267.6               | -4                 | 31.6                    | 64                 | 23.5                 | 592                | 1.8                | 1.1                | NM                                            | NM                        | 0.02                          |
| <b>Wal-Mart &amp; Shop (11)</b>                   | 1139.3                  | 7                  | 2009.7               | 7                  | 23.2                    | 19                 | 42.0                 | 20                 | 2.0                | 1.8                | 34.8                                          | 20                        | 1.30                          |
| <b>Wal-Mart Supercenters General Holding (11)</b> | 1019.0                  | -5                 | 2101.0               | -5                 | -1.6                    | NM                 | 22.8                 | NM                 | NM                 | NM                 | NA                                            | NA                        | NA                            |
| <b>Wal-Mart Super Market (5)</b>                  | 171.8                   | 1                  | 348.5                | 1                  | -1.1                    | NM                 | -1.0                 | NM                 | NM                 | 0.1                | -2.1                                          | NM                        | -0.38                         |
| <b>Wal-Mart Supercenters</b>                      | 1160.2                  | -1                 | 2304.2               | -3                 | 4.5                     | -75                | 13.5                 | -60                | 0.4                | 1.5                | 2.4                                           | 57                        | 0.30                          |
| <b>Wal-Mart Supercenters</b>                      | 368.5                   | 3                  | 741.1                | 4                  | 17.8                    | 0                  | 35.2                 | -3                 | 4.8                | 5.0                | 9.6                                           | 15                        | 1.63                          |
| <b>INDUSTRY COMPOSITE</b>                         |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| <b>INDUSTRY COMPOSITE</b>                         | <b>100318.1</b>         | <b>-2</b>          | <b>194550.1</b>      | <b>-3</b>          | <b>2549.2</b>           | <b>-34</b>         | <b>6297.3</b>        | <b>-17</b>         | <b>2.5</b>         | <b>3.8</b>         | <b>9.2</b>                                    | <b>22</b>                 | <b>2.12</b>                   |
| <b>INDUSTRY COMPOSITE</b>                         |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| <b>INDUSTRY COMPOSITE</b>                         | <b>95934.1</b>          | <b>-2</b>          | <b>185898.0</b>      | <b>-3</b>          | <b>2383.9</b>           | <b>-34</b>         | <b>5945.4</b>        | <b>-17</b>         | <b>2.5</b>         | <b>3.7</b>         | <b>9.4</b>                                    | <b>21</b>                 | <b>2.25</b>                   |
| <b>Amoco</b>                                      | 1495.9**                | 6                  | 3365.1               | 13                 | -16.7                   | NM                 | 66.9                 | NM                 | NM                 | NM                 | -2.9                                          | NM                        | -0.96                         |
| <b>Amoco</b>                                      | 8035.0***               | 11                 | 14800.0              | 4                  | 410.0                   | -16                | 808.0                | 13                 | 5.1                | 6.7                | 13.9                                          | 15                        | 3.85                          |
| <b>Amoco</b>                                      | 154.7                   | 15                 | 292.1                | 7                  | 11.5                    | 568                | 8.5                  | 160                | 7.4                | 1.3                | 17.0                                          | 10                        | 2.79                          |
| <b>Amoco</b>                                      | 2476.0                  | 1                  | 4500.0               | -5                 | 44.0                    | -12                | 78.0                 | 53                 | 1.8                | 2.0                | 14.4                                          | 12                        | 3.01                          |
| <b>Amoco</b>                                      | 4174.0*                 | -11                | 7974.0               | -13                | 24.0                    | -91                | 173.0                | -67                | 0.6                | 5.8                | -1.5                                          | NM                        | -0.55                         |
| <b>Amoco</b>                                      | 300.8                   | -4                 | 621.2                | -1                 | 33.0                    | -75                | 80.7                 | -55                | 11.0               | 42.8               | 6.0                                           | 34                        | 1.20                          |
| <b>Amoco</b>                                      | 8800.0***               | -11                | 17100.0              | -10                | 257.0                   | 414                | 645.0                | 17                 | 2.9                | 0.5                | 9.6                                           | 21                        | 2.09                          |
| <b>Amoco</b>                                      | 2486.9                  | -6                 | 5187.7               | -2                 | 43.1                    | 50                 | 124.2                | 131                | 1.7                | 1.1                | 7.3                                           | 19                        | 1.63                          |
| <b>Amoco</b>                                      | 646.5                   | -2                 | 1230.3               | -4                 | 27.5                    | 67                 | 39.7                 | 85                 | 4.3                | 2.5                | 8.6                                           | 17                        | 1.59                          |
| <b>Amoco</b>                                      | 24463.0**               | -2                 | 47686.0              | -4                 | 885.0                   | -28                | 2045.0               | -16                | 3.6                | 4.9                | 13.5                                          | 15                        | 3.91                          |
| <b>Amoco</b>                                      | 838.1                   | -10                | 1615.5               | -10                | 13.4                    | -78                | 38.4                 | -38                | 1.6                | 6.7                | 4.2                                           | 25                        | 2.99                          |
| <b>Amoco</b>                                      | 864.8                   | 2                  | 1665.7               | 2                  | 30.4                    | -10                | 52.0                 | -11                | 3.5                | 4.0                | 4.6                                           | 36                        | 1.39                          |
| <b>Amoco</b>                                      | 190.7**                 | -2                 | 397.4                | 4                  | 0.6                     | -89                | 6.8                  | -18                | 0.3                | 2.9                | 1.9                                           | NM                        | 0.33                          |
| <b>Amoco</b>                                      | 167.5                   | -18                | 354.6                | -11                | 30.1                    | NM                 | 18.9                 | NM                 | 18.0               | NM                 | -51.3                                         | NM                        | -0.46                         |
| <b>Amoco</b>                                      | 225.2                   | -2                 | 456.1                | -5                 | 3.9                     | -62                | 9.9                  | -67                | 1.7                | 4.5                | 2.5                                           | 59                        | 0.35                          |
| <b>Amoco</b>                                      | 16215.0***              | 0                  | 31333.0              | 0                  | 198.0                   | -66                | 733.0                | -31                | 1.2                | 3.6                | 9.8                                           | 20                        | 4.24                          |
| <b>Amoco</b>                                      | 434.8**                 | 1                  | 844.3                | 2                  | 27.5                    | 21                 | 51.2                 | 10                 | 6.3                | 3.1                | 7.5                                           | 21                        | 2.04                          |
| <b>Amoco</b>                                      | 2162.0                  | 8                  | 4268.0               | 2                  | -19.0                   | NM                 | -59.0                | NM                 | NM                 | 3.7                | -6.1                                          | NM                        | -0.65                         |
| <b>Amoco</b>                                      | 651.8**                 | -5                 | 1273.9               | -5                 | 16.8                    | -51                | 27.5                 | -51                | 2.6                | 5.0                | 8.4                                           | 17                        | 2.90                          |
| <b>Amoco</b>                                      | 2995.0                  | -7                 | 5879.0               | -6                 | 76.0                    | -38                | 203.0                | 10                 | 2.5                | 3.8                | 9.5                                           | 33                        | 1.01                          |
| <b>Amoco</b>                                      | 168.2                   | 3                  | 343.7                | 9                  | 3.5                     | 55                 | 7.4                  | 79                 | 2.1                | 1.4                | 7.0                                           | 23                        | 0.62                          |
| <b>Amoco</b>                                      | 2253.0***               | -8                 | 4320.0               | -9                 | 12.0                    | -83                | 46.0                 | -56                | 0.5                | 2.9                | 11.3                                          | 13                        | 2.11                          |
| <b>Amoco</b>                                      | 8000.0**                | -9                 | 15434.0              | -9                 | 115.0                   | -63                | 317.0                | -47                | 1.4                | 3.6                | 9.6                                           | 18                        | 3.42                          |
| <b>Amoco</b>                                      | 1399.8                  | 46                 | 2895.4               | 111                | 14.5                    | -35                | 53.3                 | 44                 | 1.0                | 2.3                | 19.7                                          | 11                        | 2.77                          |
| <b>Amoco</b>                                      | 565.5                   | -3                 | 1152.7               | -7                 | 8.6                     | -44                | 39.5                 | -1                 | 1.5                | 2.6                | 15.9                                          | 12                        | 2.20                          |
| <b>Amoco</b>                                      | 146.0**                 | -1                 | 340.0                | 5                  | 8.0                     | -38                | 35.0                 | -10                | 5.5                | 8.8                | 8.8                                           | 60                        | 0.31                          |
| <b>Amoco</b>                                      | 2045.0*                 | -3                 | 3961.0               | -10                | 50.0                    | -43                | 104.0                | -55                | 2.4                | 4.2                | 7.0                                           | 41                        | 0.74                          |
| <b>Amoco</b>                                      | 3163.0*                 | 2                  | 5910.0               | -2                 | 72.0                    | 243                | 182.0                | 250                | 2.3                | 0.7                | 3.8                                           | 41                        | 0.42                          |
| <b>Amoco</b>                                      | 416.1                   | 30                 | 697.4                | 13                 | 4.2                     | -83                | 10.5                 | -74                | 1.0                | 7.7                | 0.2                                           | NM                        | 0.06                          |
| <b>INDUSTRY COMPOSITE</b>                         |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| <b>INDUSTRY COMPOSITE</b>                         | <b>4384.1</b>           | <b>-5</b>          | <b>8652.1</b>        | <b>-4</b>          | <b>165.3</b>            | <b>-31</b>         | <b>351.8</b>         | <b>-14</b>         | <b>3.8</b>         | <b>5.3</b>         | <b>5.2</b>                                    | <b>52</b>                 | <b>0.80</b>                   |
| <b>Amoco</b>                                      | 590.5                   | -12                | 1240.5               | -9                 | 34.4                    | 45                 | 57.7                 | 117                | 5.8                | 3.6                | 5.7                                           | 33                        | 0.64                          |
| <b>Amoco</b>                                      | 1425.5**                | -11                | 2801.7               | -11                | -19.2                   | NM                 | -1.4                 | NM                 | NM                 | 1.4                | -10.9                                         | NM                        | -1.79                         |
| <b>Amoco</b>                                      | 1639.1                  | -5                 | 3279.4               | -1                 | 123.4                   | -24                | 244.9                | -17                | 7.5                | 9.5                | 11.9                                          | 28                        | 2.19                          |
| <b>Amoco</b>                                      | 173.4**                 | 229                | 274.2                | 167                | 8.5                     | 219                | 16.1                 | 304                | 4.9                | 5.0                | 3.6                                           | 81                        | 0.21                          |
| <b>Amoco</b>                                      | 555.6                   | NA                 | 1056.3               | NA                 | 18.2                    | NA                 | 34.6                 | NA                 | 3.3                | NA                 | NA                                            | NA                        | NA                            |
| <b>INDUSTRY COMPOSITE</b>                         |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| <b>INDUSTRY COMPOSITE</b>                         | <b>58554.8</b>          | <b>11</b>          | <b>115548.4</b>      | <b>10</b>          | <b>5516.2</b>           | <b>35</b>          | <b>11032.7</b>       | <b>18</b>          | <b>9.4</b>         | <b>8.2</b>         | <b>22.0</b>                                   | <b>18</b>                 | <b>2.08</b>                   |
| <b>INDUSTRY COMPOSITE</b>                         |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| <b>INDUSTRY COMPOSITE</b>                         | <b>16091.9</b>          | <b>10</b>          | <b>32153.4</b>       | <b>9</b>           | <b>242.3</b>            | <b>4</b>           | <b>439.2</b>         | <b>-7</b>          | <b>1.5</b>         | <b>1.8</b>         | <b>12.1</b>                                   | <b>25</b>                 | <b>1.22</b>                   |
| <b>Amoco</b>                                      | 155.6                   | 17                 | 315.2                | 15                 | -1.6                    | NM                 | 4.8                  | -47                | NM                 | 2.9                | 2.3                                           | NM                        | 0.17                          |
| <b>Amoco</b>                                      | 1878.5**                | NA                 | 3724.0               | NA                 | 15.0                    | NA                 | 29.6                 | NA                 | 0.8                | NA                 | NA                                            | NA                        | NA                            |
| <b>Amoco</b>                                      | 179.3                   | 19                 | 359.3                | 21                 | 4.1                     | 23                 | 9.7                  | 25                 | 2.3                | 2.2                | 12.9                                          | 15                        | 0.75                          |
| <b>Amoco</b>                                      | 987.0                   | 22                 | 1903.8               | 18                 | 3.7                     | 15                 | 7.4                  | 13                 | 0.4                | 0.4                | 6.2                                           | 12                        | 0.95                          |
| <b>Amoco</b>                                      | 1590.5                  | NA                 | 3101.2               | NA                 | 16.6                    | NA                 | 7.7                  | NA                 | 1.0                | NA                 | 9.7                                           | 43                        | 0.86                          |
| <b>Amoco</b>                                      | 166.5**                 | 73                 | 327.4                | 66                 | 4.2                     | 67                 | 0.4                  | -79                | 2.5                | 2.6                | 3.8                                           | 80                        | 0.26                          |
| <b>Amoco</b>                                      | 188.7                   | 3                  | 390.9                | 1                  | 0.3                     | 78                 | 1.1                  | 9                  | 0.1                | 0.1                | 2.7                                           | 47                        | 0.11                          |
| <b>Amoco</b>                                      | 1126.8                  | 7                  | 2308.3               | 8                  | 26.9                    | 51                 | 62.9                 | 73                 | 2.4                | 1.7                | NM                                            | 15                        | 1.52                          |
| <b>Amoco</b>                                      | 239.1                   | 10                 | 494.1                | 4                  | 2.0                     | NM                 | 7.8                  | 89                 | 0.8                | NM                 | 13.4                                          | 11                        | 0.65                          |
| <b>Amoco</b>                                      | 1181.8                  | -2                 | 2455.4               | 0                  | 3.5                     | 27                 | 13.6                 | 64                 | 0.3                | 0.2                | 6.0                                           | 16                        | 0.98                          |
| <b>Amoco</b>                                      | 159.5                   | 12                 | 285.7                | 9                  | 1.7                     | 15                 | 5.2                  | 9                  | 1.1                | 1.0                | 14.5                                          | 12                        | 0.94                          |
| <b>Amoco</b>                                      | 622.3                   | 2                  | 1307.0               | 3                  | 13.0                    | 19                 | 30.0                 | 9                  | 2.1                | 1.8                | 10.2                                          | 14                        | 2.51                          |
| <b>Amoco</b>                                      | 3235.2**                | 10                 | 6412.1               | 9                  | 26.4                    | -46                | 66.8                 | -19                | 0.8                | 1.7                | 21.9                                          | 33                        | 3.12                          |
| <b>Amoco</b>                                      | 178.7                   | 6                  | 369.3                | 6                  | 1.3                     | -22                | 4.7                  | 113                | 0.7                | 1.0                | -28.6                                         | NM                        | -1.33                         |
| <b>Amoco</b>                                      | 815.5                   | 11                 | 1436.7               | 12                 | 20.2                    | 68                 | 32.7                 | 101                | 2.5                | 1.6                | 8.1                                           | 23                        | 0.77                          |
| <b>Amoco</b>                                      | 1051.1                  | 5                  | 2128.6               | 4                  | 34.0                    | 7                  | -13.7                | NM                 | 3.2                | 3.2                | 3.0                                           | 61                        | 0.34                          |
| <b>Amoco</b>                                      | 2336.0                  | 12                 | 4834.5               | 11                 | 71.0                    | 11                 | 168.6                | 14                 | 3.0                | 3.1                | 18.4                                          | 16                        | 2.19                          |



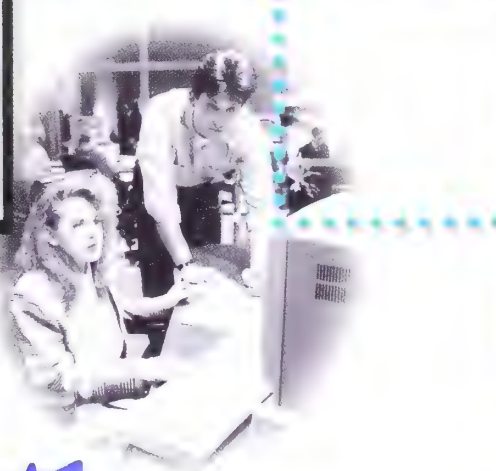
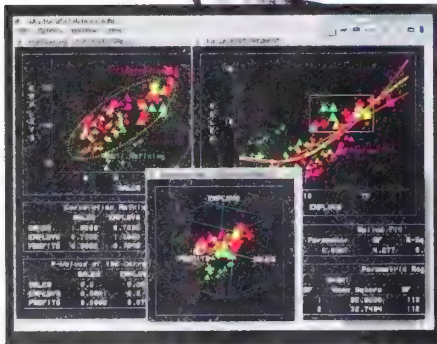
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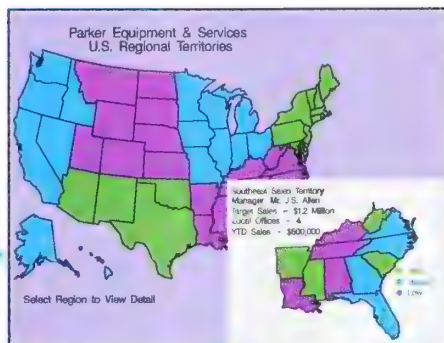


# The SAS System

## Enterprise Wide Information

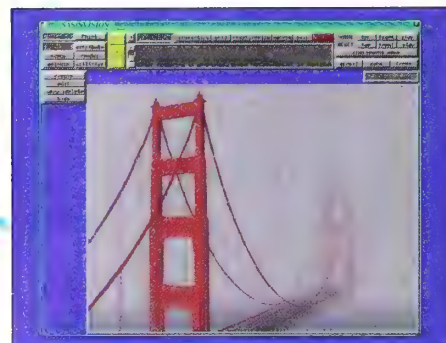
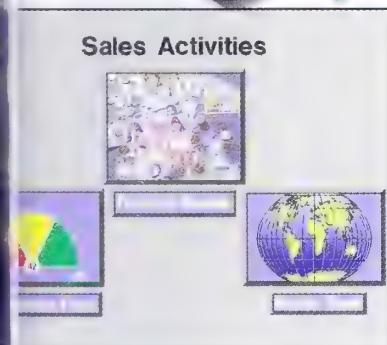
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# System

# Information Delivery



# CORPORATE SCOREBOARD

| COMPANY                             | SALES                   |                    |                      |                    | PROFITS                 |                    |                      |                    | MARGINS            |                    |       | RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30 | PRICE-EARNINGS RATIO 7-22 | 12 MON' EARN' PER SHA |  |
|-------------------------------------|-------------------------|--------------------|----------------------|--------------------|-------------------------|--------------------|----------------------|--------------------|--------------------|--------------------|-------|-----------------------------------------------|---------------------------|-----------------------|--|
|                                     | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 % | 2ND QUARTER 1993 % |       |                                               |                           |                       |  |
| <b>(b) DRUGS &amp; RESEARCH</b>     |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |                                               |                           |                       |  |
| GROUP COMPOSITE                     | 19937.3                 | 12                 | 39259.6              | 12                 | 3307.6                  | 56                 | 6764.0               | 25                 | 16.6               | 12.0               | 25.3  | 16                                            | 2.6                       |                       |  |
| Allergan                            | 224.7                   | 8                  | 434.8                | 6                  | 23.5                    | 0                  | 45.7                 | 0                  | 10.5               | 11.3               | 19.5  | 15                                            | 1.6                       |                       |  |
| American Cyanamid                   | 1499.8                  | 20                 | 2754.6               | 15                 | 185.1                   | NM                 | 301.8                | NM                 | 12.3               | NM                 | 17.4  | 21                                            | 2.8                       |                       |  |
| American Home Products              | 1977.9                  | 4                  | 4121.9               | 3                  | 300.0                   | 4                  | 715.8                | 4                  | 15.2               | 15.1               | 38.3  | 12                                            | 4.8                       |                       |  |
| Amgen                               | 414.7                   | 21                 | 778.7                | 19                 | 107.5                   | 7                  | 200.9                | 11                 | 25.9               | 29.2               | 31.4  | 17                                            | 2.7                       |                       |  |
| Bristol-Myers Squibb                | 2970.3                  | 6                  | 5804.3               | 4                  | 542.0                   | 4                  | 1123.0               | 3                  | 18.2               | 18.6               | 33.1  | 13                                            | 3.8                       |                       |  |
| Genentech                           | 194.9**                 | 23                 | 393.8                | 31                 | 33.4                    | 221                | 72.2                 | 192                | 17.1               | 6.5                | 9.0   | 55                                            | 0.9                       |                       |  |
| IVAX                                | 249.4                   | 5                  | 485.9                | 7                  | 23.5                    | 8                  | 45.4                 | 14                 | 9.4                | 9.2                | 17.5  | 13                                            | 1.1                       |                       |  |
| Lilly (Eli)                         | 1678.5                  | 8                  | 3315.5               | 6                  | 346.6                   | 0                  | 677.3                | -6                 | 20.7               | 22.2               | 9.1   | 30                                            | 1.5                       |                       |  |
| Marion Merrell Dow                  | 764.0                   | 2                  | 1472.0               | 8                  | 118.0                   | 307                | 204.0                | 98                 | 15.4               | 3.9                | 23.3  | 12                                            | 1.6                       |                       |  |
| Merck                               | 3792.0                  | 47                 | 7306.3               | 48                 | 764.0                   | 343                | 1439.2               | 83                 | 20.1               | 6.7                | 27.1  | 13                                            | 2.3                       |                       |  |
| Pfizer                              | 1923.3                  | 10                 | 3906.2               | 8                  | 257.2                   | 1                  | 627.9                | 8                  | 13.4               | 14.5               | 18.3  | 26                                            | 2.2                       |                       |  |
| Schering-Plough                     | 1190.1                  | 6                  | 2351.7               | 6                  | 240.7                   | 13                 | 493.9                | 13                 | 20.2               | 19.0               | 50.9  | 14                                            | 4.5                       |                       |  |
| Sigma-Aldrich                       | 212.5                   | 16                 | 420.9                | 16                 | 27.0                    | 0                  | 56.7                 | 5                  | 12.7               | 14.6               | 17.7  | 15                                            | 2.2                       |                       |  |
| Syntex (5)                          | 402.1                   | -31                | 891.2                | -18                | 22.4                    | -45                | 118.2                | -26                | 5.6                | 7.0                | 29.6  | 14                                            | 1.7                       |                       |  |
| Upjohn                              | 891.0**                 | 0                  | 1796.8               | -1                 | 120.1                   | -4                 | 254.8                | -8                 | 13.5               | 14.0               | 17.2  | 14                                            | 2.1                       |                       |  |
| Warner-Lambert                      | 1552.2                  | 7                  | 3025.1               | 9                  | 196.8                   | 4                  | 387.2                | 19                 | 12.7               | 13.1               | 23.6  | 25                                            | 2.5                       |                       |  |
| <b>(c) HEALTH-CARE SERVICES</b>     |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |                                               |                           |                       |  |
| GROUP COMPOSITE                     | 11121.1                 | 11                 | 22017.7              | 10                 | 671.6                   | 16                 | 1289.8               | 9                  | 6.0                | 5.8                | 16.7  | 20                                            | 1.3                       |                       |  |
| American Medical Holdings (4)       | 602.0                   | 6                  | 1185.3               | 5                  | 71.3                    | 228                | 95.6                 | 139                | 11.8               | 3.8                | 17.2  | 14                                            | 1.6                       |                       |  |
| Beverly Enterprises                 | 719.0                   | 1                  | 1431.2               | 2                  | 19.6                    | 35                 | 35.0                 | 41                 | 2.7                | 2.0                | 6.9   | 25                                            | 0.5                       |                       |  |
| Caremark International              | 635.5                   | 45                 | 1160.0               | 34                 | 23.3                    | 25                 | 27.6                 | -20                | 3.7                | 4.2                | 17.1  | 23                                            | 0.9                       |                       |  |
| Columbia/HCA Healthcare             | 2689.0                  | 6                  | 5467.0               | 5                  | 205.0                   | 24                 | 342.0                | -8                 | 7.6                | 6.5                | 15.5  | 24                                            | 1.6                       |                       |  |
| Foundation Health (6)               | 342.6                   | -24                | 746.2                | -11                | 19.0                    | 1                  | 38.6                 | 3                  | 5.6                | 4.2                | 22.8  | 13                                            | 2.8                       |                       |  |
| Health Care & Retirement            | 151.7                   | 9                  | 302.0                | 11                 | 10.5                    | 20                 | 20.1                 | 23                 | 6.9                | 6.3                | 11.6  | 22                                            | 1.1                       |                       |  |
| Healthsouth Rehabilitation          | 247.4                   | 107                | 478.7                | 103                | 13.3                    | 39                 | 25.4                 | 38                 | 5.4                | 8.0                | 4.4   | 78                                            | 0.4                       |                       |  |
| Healthtrust (4)                     | 753.5                   | 26                 | 1406.0               | 18                 | 45.6                    | 22                 | 93.0                 | 24                 | 6.1                | 6.3                | 16.1  | 15                                            | 1.8                       |                       |  |
| Hillhaven (7)                       | 368.5                   | 7                  | 732.5                | 6                  | 13.0                    | 14                 | 24.7                 | 19                 | 3.5                | 3.3                | 14.6  | 9                                             | 2.0                       |                       |  |
| Humana                              | 897.0**                 | 15                 | 1750.0               | 12                 | 54.0                    | 184                | 86.0                 | 132                | 6.0                | 2.4                | 15.0  | 21                                            | 0.8                       |                       |  |
| Manor Care (7)                      | 309.7                   | 17                 | 593.8                | 16                 | 22.7                    | 31                 | 38.4                 | 32                 | 7.3                | 6.5                | 15.3  | 19                                            | 1.2                       |                       |  |
| National Health Labs. Holdings      | 203.9                   | 4                  | 388.9                | -2                 | 14.1                    | -58                | 22.2                 | -67                | 6.9                | 16.9               | 47.9  | 15                                            | 0.7                       |                       |  |
| National Medical Enterprises (7)    | 701.8                   | -14                | 1422.0               | -12                | 11.3                    | -84                | 102.0                | -25                | 1.6                | 8.6                | 16.4  | 13                                            | 1.2                       |                       |  |
| OrNda HealthCorp (4)                | 330.5**                 | 34                 | 700.0                | 25                 | -28.6                   | NM                 | -24.0                | NM                 | NM                 | 1.7                | -16.2 | NM                                            | -0.6                      |                       |  |
| Oxford Health Plans                 | 158.1**                 | 126                | 284.9                | 122                | 6.4                     | 93                 | 11.8                 | 93                 | 4.1                | 4.8                | 20.0  | 40                                            | 1.2                       |                       |  |
| U. S. Healthcare                    | 726.9**                 | 12                 | 1442.8               | 12                 | 93.3                    | 39                 | 182.6                | 40                 | 12.8               | 10.3               | 43.1  | 17                                            | 2.1                       |                       |  |
| United Wisconsin Services           | 179.2**                 | 27                 | 348.3                | 28                 | 7.4                     | 11                 | 15.2                 | 16                 | 4.1                | 4.7                | 22.4  | 12                                            | 2.6                       |                       |  |
| Universal Health Services           | 192.2**                 | 3                  | 386.6                | 1                  | 8.2                     | 26                 | 18.4                 | 22                 | 4.2                | 3.5                | 11.6  | 14                                            | 1.9                       |                       |  |
| Value Health                        | 218.1**                 | 48                 | 414.9                | 46                 | 12.5                    | 47                 | 23.7                 | 48                 | 5.7                | 5.8                | 4.9   | NM                                            | 0.4                       |                       |  |
| WellPoint Health Network            | 694.6**                 | 15                 | 1376.5               | 16                 | 49.7                    | 32                 | 111.4                | 31                 | 7.2                | 6.2                | 16.8  | 14                                            | 2.1                       |                       |  |
| <b>(d) MEDICAL PRODUCTS</b>         |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |                                               |                           |                       |  |
| GROUP COMPOSITE                     | 11404.4                 | 9                  | 22117.7              | 7                  | 1294.7                  | 11                 | 2539.6               | 10                 | 11.4               | 11.1               | 21.0  | 20                                            | 1.7                       |                       |  |
| Abbott Laboratories                 | 2204.0                  | 6                  | 4419.3               | 7                  | 376.6                   | 9                  | 742.8                | 7                  | 17.1               | 16.7               | 38.7  | 16                                            | 1.7                       |                       |  |
| Bard (C. R.)                        | 256.3                   | 5                  | 503.7                | 5                  | 23.3                    | 15                 | 46.1                 | -2                 | 9.1                | 8.3                | 15.4  | 19                                            | 1.1                       |                       |  |
| Bausch & Lomb                       | 483.3                   | 1                  | 922.1                | 4                  | 33.1                    | -30                | 68.7                 | -14                | 6.8                | 9.8                | 15.3  | 14                                            | 2.4                       |                       |  |
| Baxter International                | 2316.0                  | 5                  | 4509.0               | 6                  | 144.0                   | 9                  | 275.0                | 46                 | 6.2                | 6.0                | -5.6  | NM                                            | -0.6                      |                       |  |
| Becton, Dickinson (3)               | 653.0                   | 4                  | 1287.8               | 4                  | 58.1                    | 2                  | 115.2                | 2                  | 8.9                | 9.1                | 15.4  | 15                                            | 2.8                       |                       |  |
| Johnson & Johnson                   | 3916.0                  | 11                 | 7606.0               | 7                  | 559.0                   | 13                 | 1103.0               | 11                 | 14.3               | 14.0               | 31.1  | 15                                            | 2.9                       |                       |  |
| Kendall International               | 214.9                   | 3                  | 408.8                | -1                 | 19.1                    | 40                 | 36.3                 | 53                 | 8.9                | 6.5                | 24.2  | 17                                            | 3.0                       |                       |  |
| Medtronic (8)                       | 393.0                   | 10                 | 727.6                | 9                  | 66.7                    | 15                 | 123.7                | 17                 | 17.0               | 16.2               | 25.2  | 21                                            | 4.0                       |                       |  |
| Owens & Minor                       | 581.8                   | 71                 | 972.6                | 48                 | -5.1                    | NM                 | -0.4                 | NM                 | NM                 | 1.3                | 7.3   | 46                                            | 0.3                       |                       |  |
| Stryker                             | 154.2                   | 10                 | 303.0                | 10                 | 17.0                    | 22                 | 34.4                 | 21                 | 11.0               | 10.0               | 21.5  | 23                                            | 1.3                       |                       |  |
| U. S. Surgical                      | 232.0                   | 1                  | 458.0                | -17                | 3.0                     | NM                 | -5.1                 | NM                 | 1.3                | NM                 | -25.1 | NM                                            | -2.8                      |                       |  |
| <b>13 HOUSING &amp; REAL ESTATE</b> |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |                                               |                           |                       |  |
| INDUSTRY COMPOSITE                  | 9843.0                  | 14                 | 18036.4              | 14                 | 547.0                   | 31                 | 665.4                | 27                 | 5.6                | 5.2                | 13.1  | 20                                            | 1.4                       |                       |  |
| <b>(a) BUILDING MATERIALS</b>       |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |                                               |                           |                       |  |
| GROUP COMPOSITE                     | 6864.3                  | 11                 | 12405.0              | 9                  | 416.4                   | 21                 | 456.0                | 15                 | 6.1                | 6.2                | 13.1  | 25                                            | 1.3                       |                       |  |
| Lafarge                             | 423.4                   | 7                  | 631.1                | 8                  | 38.1                    | 71                 | -23.7                | NM                 | 9.0                | 5.6                | 4.6   | 36                                            | 0.5                       |                       |  |
| National Gypsum                     | 159.5                   | NA                 | 299.3                | NA                 | 21.0                    | NA                 | 33.1                 | NA                 | 13.2               | NA                 | 18.3  | 15                                            | 2.4                       |                       |  |
| Owens-Corning Fiberglas             | 852.0                   | 13                 | 1529.0               | 9                  | 45.0                    | 36                 | -22.0                | NM                 | 5.3                | 4.4                | NM    | 24                                            | 1.3                       |                       |  |
| PPG Industries                      | 1619.3                  | 6                  | 3096.2               | 4                  | 96.2                    | -9                 | 218.1                | 1                  | 5.9                | 7.0                | 11.8  | 28                                            | 1.4                       |                       |  |
| RPM (7)                             | 217.4                   | 7                  | 404.0                | 6                  | 16.9                    | 18                 | 23.4                 | 35                 | 7.8                | 7.0                | 17.2  | 18                                            | 0.9                       |                       |  |
| Sherwin-Williams                    | 880.5                   | 7                  | 1519.7               | 5                  | 69.2                    | 14                 | 84.7                 | 14                 | 7.9                | 7.4                | 17.3  | 16                                            | 1.9                       |                       |  |
| Southdown                           | 157.6**                 | 9                  | 277.0                | 11                 | 11.0                    | 323                | 8.8                  | NM                 | 7.0                | 1.8                | 2.1   | NM                                            | 0.2                       |                       |  |
| Tecumseh Products                   | 424.8                   | 15                 | 811.2                | 14                 | 35.9                    | 48                 | 64.9                 | 54                 | 8.5                | 6.6                | 13.8  | 11                                            | 4.7                       |                       |  |
| Texas Industries (7)                | 195.2**                 | 20                 | 365.7                | 20                 | 15.9                    | 156                | 18.7                 | 979                | 8.1                | 3.8                | 8.9   | 15                                            | 2.2                       |                       |  |
| TJ International                    | 163.5                   | 17                 | 298.5                | 18                 | 5.7                     | 34                 | 8.3                  | 124                | 3.5                | 3.1                | 6.9   | 18                                            | 1.0                       |                       |  |
| USG                                 | 562.0                   | NA                 | 1068.0               | NA                 | -17.0                   | NA                 | -51.0                | NA                 | NM                 | NA                 | NM    | NM                                            | -3.5                      |                       |  |
| Valspar (2)                         | 245.6                   | 37                 | 393.6                | 24                 | 14.3                    | 40                 | 18.5                 | 37                 | 5.8                | 5.7                | 28.8  | 17                                            | 2.0                       |                       |  |
| Vulcan Materials                    | 326.7                   | 7                  | 543.6                | 5                  | 33.7                    | 7                  | 28.5                 | -8                 | 10.3               | 10.3               | 12.4  | 19                                            | 2.3                       |                       |  |
| York International                  | 636.8                   | 20                 | 1168.0               | 19                 | 30.5                    | 16                 | 45.7                 | 17                 | 4.8                | 4.9                | 17.8  | 18                                            | 2.1                       |                       |  |

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# CORPORATE SCOREBOARD

| COMPANY                             | SALES                   |                    |                      |                    | PROFITS                 |                    |                      |                    | MARGINS            |                    | RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30 | PRICE-EARNINGS RATIO 7-22 | 12 MONTHS' EARNINGS PER SHARE |
|-------------------------------------|-------------------------|--------------------|----------------------|--------------------|-------------------------|--------------------|----------------------|--------------------|--------------------|--------------------|-----------------------------------------------|---------------------------|-------------------------------|
|                                     | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 % | 2ND QUARTER 1993 % |                                               |                           |                               |
| CONSTRUCTION & REAL ESTATE          |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| GROUP COMPOSITE                     | 2978.7                  | 20                 | 5631.4               | 24                 | 130.7                   | 79                 | 209.4                | 66                 | 4.4                | 3.0                | 13.1                                          | 9                         | 1.98                          |
| Centex (9)                          | 832.5**                 | 27                 | 1702.0               | 30                 | 53.4                    | 214                | 75.1                 | 133                | 6.4                | 2.6                | 18.2                                          | 7                         | 3.75                          |
| Duffman & Broad Home (1)            | 326.0                   | 2                  | 582.9                | 7                  | 11.2                    | 24                 | 20.1                 | 49                 | 3.5                | 2.8                | 9.5                                           | 14                        | 1.10                          |
| Home Depot (1)                      | 208.0**                 | 47                 | 400.3                | 54                 | 18.0                    | 69                 | 32.8                 | 67                 | 8.7                | 7.5                | 13.1                                          | 11                        | 1.82                          |
| W. D. C. Holdings                   | 197.8**                 | 24                 | 366.5                | 33                 | 5.7                     | 89                 | 9.5                  | 142                | 2.9                | 1.9                | 8.5                                           | 9                         | 0.74                          |
| Home Depot                          | 427.9**                 | 17                 | 768.5                | 19                 | 15.9                    | 9                  | 27.2                 | 30                 | 3.7                | 4.0                | 12.8                                          | 9                         | 2.55                          |
| Home Depot Group                    | 416.7                   | 12                 | 749.2                | 12                 | 7.6                     | 32                 | 11.7                 | -5                 | 1.8                | 1.5                | -2.0                                          | NM                        | -0.39                         |
| Home Depot (7)                      | 167.9                   | 22                 | 298.7                | 20                 | 5.3                     | 67                 | 7.7                  | 67                 | 3.1                | 2.3                | 9.0                                           | 14                        | 1.34                          |
| Home Depot (5)                      | 241.1**                 | 23                 | 466.4                | 29                 | 7.2                     | 37                 | 14.2                 | 38                 | 3.0                | 2.7                | 36.3                                          | 3                         | 6.51                          |
| Home Depot (Del) (6)                | 160.7**                 | 25                 | 297.0                | 31                 | 6.4                     | 39                 | 11.0                 | 26                 | 4.0                | 3.6                | 8.7                                           | 13                        | 1.13                          |
| RECREATION & LEISURE INDUSTRIES     |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| INDUSTRY COMPOSITE                  | 19016.7                 | 13                 | 36347.4              | 13                 | 1620.2                  | 21                 | 2843.7               | 23                 | 8.5                | 8.0                | 15.0                                          | 23                        | 1.38                          |
| AMUSEMENT & RECREATION              |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| GROUP COMPOSITE                     | 4932.1                  | 12                 | 9607.1               | 11                 | 423.8                   | 14                 | 758.8                | 14                 | 8.6                | 8.4                | 20.0                                          | 17                        | 1.46                          |
| Bob Evans Farms (8)                 | 176.9                   | 10                 | 343.6                | 4                  | 11.8                    | 15                 | 24.0                 | 11                 | 6.6                | 6.4                | 13.8                                          | 19                        | 1.15                          |
| Archer Barrel Old Country Store (5) | 155.4                   | 24                 | 306.2                | 25                 | 12.6                    | 25                 | 22.5                 | 27                 | 8.1                | 8.0                | 13.2                                          | 26                        | 0.88                          |
| Arriott International               | 1982.0                  | 16                 | 3898.0               | 15                 | 48.0                    | 30                 | 91.0                 | 23                 | 2.4                | 2.2                | 22.6                                          | 20                        | 1.36                          |
| McDonald's                          | 2029.3                  | 8                  | 3825.3               | 8                  | 322.3                   | 12                 | 565.7                | 12                 | 15.9               | 15.4               | 18.9                                          | 17                        | 1.56                          |
| Orison Restaurants (7)              | 310.9**                 | 9                  | 620.9                | 9                  | 12.2                    | 19                 | 24.5                 | 18                 | 3.9                | 3.6                | 20.2                                          | 19                        | 1.20                          |
| Wendy's (2)                         | 277.5**                 | 6                  | 613.2                | 6                  | 16.9                    | 12                 | 31.1                 | 14                 | 6.1                | 5.8                | NM                                            | 9                         | 1.51                          |
| ENTERTAINMENT                       |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| GROUP COMPOSITE                     | 3029.8                  | 25                 | 6002.2               | 23                 | 330.5                   | 8                  | 651.5                | 15                 | 10.9               | 12.6               | 14.6                                          | 27                        | 1.38                          |
| Blockbuster Entertainment           | 676.3                   | 37                 | 1372.8               | 48                 | 63.0                    | 31                 | 135.6                | 46                 | 9.3                | 9.7                | 15.5                                          | 22                        | 1.19                          |
| Walt Disney (3)                     | 2353.6                  | 22                 | 4629.4               | 17                 | 267.5                   | 3                  | 515.9                | 9                  | 11.4               | 13.4               | 14.3                                          | 28                        | 1.47                          |
| DELT & MOTEL                        |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| GROUP COMPOSITE                     | 1801.5                  | 35                 | 3495.4               | 34                 | 170.1                   | 47                 | 294.4                | 45                 | 9.4                | 8.7                | 10.1                                          | 29                        | 1.05                          |
| Caesars World (5)                   | 237.2                   | 6                  | 495.2                | 1                  | 11.6                    | -32                | 33.6                 | -21                | 4.9                | 7.6                | 16.2                                          | 11                        | 3.55                          |
| Circus Enterprises (11)             | 282.1                   | 34                 | 554.2                | 38                 | 32.3                    | -1                 | 57.8                 | 10                 | 11.4               | 15.6               | 20.0                                          | 20                        | 1.35                          |
| Hilton Hotels                       | 381.2**                 | 10                 | 720.0                | 6                  | 33.9                    | 27                 | 56.6                 | 13                 | 8.9                | 7.8                | 10.2                                          | 28                        | 2.27                          |
| GM Grand                            | 192.2                   | NM                 | 371.0                | NM                 | 20.2                    | NM                 | 23.5                 | NM                 | 10.5               | NM                 | -18.5                                         | NM                        | -1.83                         |
| Image Resorts                       | 306.4                   | 33                 | 606.9                | 36                 | 30.2                    | 68                 | 53.5                 | 89                 | 9.8                | 7.8                | 7.8                                           | 22                        | 0.80                          |
| Omni                                | 402.3                   | 27                 | 748.1                | 28                 | 41.9                    | 84                 | 69.3                 | 99                 | 10.4               | 7.2                | 22.2                                          | 25                        | 1.22                          |
| OTHER LEISURE                       |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| GROUP COMPOSITE                     | 9253.5                  | 8                  | 17242.7              | 8                  | 695.8                   | 28                 | 1139.0               | 30                 | 7.5                | 6.3                | 13.9                                          | 24                        | 1.42                          |
| American Greetings (10)             | 416.4                   | 6                  | 889.7                | 7                  | 33.2                    | 14                 | 72.6                 | 15                 | 8.0                | 7.4                | 12.5                                          | 16                        | 1.83                          |
| Funswick                            | 748.2                   | 27                 | 1383.1               | 22                 | 55.2                    | 145                | 81.6                 | 153                | 7.4                | 3.8                | 12.6                                          | 22                        | 1.08                          |
| Artnival (1)                        | 409.4                   | 8                  | 794.7                | 13                 | 77.9                    | 20                 | 143.0                | 23                 | 19.0               | 17.2               | 20.6                                          | 20                        | 2.44                          |
| ML Group (5)                        | 198.1                   | 17                 | 490.1                | 21                 | 17.1                    | 14                 | 55.4                 | 16                 | 8.6                | 8.9                | 28.8                                          | 7                         | 1.30                          |
| Kodak                               | 3425.0                  | 2                  | 6180.0               | 3                  | 295.0                   | -16                | 440.0                | -12                | 8.6                | 10.4               | 14.9                                          | 32                        | 1.56                          |
| Kodak Enterprises (8)               | 715.9                   | 29                 | 1264.5               | 27                 | 23.1                    | 47                 | 35.2                 | 33                 | 3.2                | 2.8                | 12.3                                          | 16                        | 1.46                          |
| Arley-Davidson                      | 401.4                   | 20                 | 745.1                | 23                 | 34.6                    | 45                 | 55.4                 | 42                 | 8.6                | 7.1                | 10.1                                          | 53                        | 0.92                          |
| Asbro                               | 444.3                   | -14                | 933.5                | -7                 | 1.6                     | -94                | 28.4                 | -47                | 0.4                | 5.3                | 13.5                                          | 15                        | 1.94                          |
| Amway                               | 214.9                   | -2                 | 404.1                | -7                 | 8.0                     | 16                 | 12.8                 | 9                  | 3.7                | 3.1                | -2.0                                          | NM                        | -0.22                         |
| Amway                               | 650.3                   | 13                 | 1137.5               | 8                  | 57.1                    | 40                 | 81.2                 | 37                 | 8.8                | 7.1                | 16.6                                          | 32                        | 0.87                          |
| Amway Stores                        | 273.1                   | 23                 | 542.5                | 22                 | -2.2                    | NM                 | -4.3                 | NM                 | NM                 | NM                 | 9.5                                           | 16                        | 1.02                          |
| Amway Marine (3)                    | 318.8                   | 8                  | 582.3                | 2                  | 28.0                    | NM                 | 47.1                 | NM                 | 8.8                | NM                 | -3.1                                          | NM                        | -0.30                         |
| Amway                               | 587.3                   | 3                  | 1049.9               | 1                  | 29.2                    | 4                  | 30.6                 | 64.6               | 5.0                | 4.9                | 12.3                                          | 17                        | 2.00                          |
| Amway Caribbean Cruises             | 291.9                   | 5                  | 580.5                | 6                  | 36.9                    | 34                 | 72.3                 | 52                 | 12.6               | 9.9                | 17.2                                          | 14                        | 2.08                          |
| Amway Toys                          | 158.5                   | 8                  | 265.2                | 7                  | 1.2                     | NM                 | -12.2                | NM                 | 0.8                | NM                 | -24.8                                         | NM                        | -1.92                         |
| MANUFACTURING                       |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| INDUSTRY COMPOSITE                  | 30521.0                 | 15                 | 58338.0              | 13                 | 1910.0                  | 49                 | 3484.1               | 53                 | 6.3                | 4.8                | 17.4                                          | 18                        | 2.05                          |
| GENERAL MANUFACTURING               |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                               |
| GROUP COMPOSITE                     | 10815.0                 | 15                 | 20824.4              | 12                 | 843.4                   | 17                 | 1506.6               | 11                 | 7.8                | 7.7                | 16.1                                          | 21                        | 1.76                          |
| Illiant Techsystems (9)             | 168.9                   | 0                  | 468.2                | 1                  | 6.9                     | -17                | 14.1                 | -18                | 4.1                | 5.0                | 31.9                                          | 10                        | 3.05                          |
| Very Dennison                       | 718.6                   | 9                  | 1386.3               | 4                  | 27.9                    | 22                 | 53.1                 | 18                 | 3.9                | 3.4                | 12.2                                          | 19                        | 1.62                          |
| Arllise                             | 183.8                   | 14                 | 338.5                | 13                 | 10.1                    | 35                 | 16.9                 | 26                 | 5.5                | 4.7                | 14.2                                          | 16                        | 2.06                          |
| Arllise                             | 1109.2**                | 22                 | 2065.8               | 19                 | 111.4                   | 24                 | 169.4                | 21                 | 10.0               | 9.8                | 0.6                                           | NM                        | 0.00                          |
| Arllise                             | 428.7                   | 27                 | 760.4                | 17                 | 15.7                    | 0                  | 23.1                 | -13                | 3.7                | 4.7                | 15.5                                          | 17                        | 1.51                          |
| Arllise Signal                      | 164.0                   | 12                 | 302.1                | 10                 | 12.4                    | 17                 | 20.6                 | 16                 | 7.6                | 7.2                | 21.6                                          | 20                        | 0.93                          |
| Arllise Industries (1)              | 382.7                   | 5                  | 760.1                | 6                  | 32.8                    | -10                | 70.4                 | 0                  | 8.6                | 9.9                | 19.0                                          | 17                        | 1.87                          |
| Arllise Tool Works                  | 881.0                   | 6                  | 1652.5               | 5                  | 70.7                    | 29                 | 121.6                | 26                 | 8.0                | 6.6                | 16.9                                          | 18                        | 2.04                          |
| Arllise Game Technology (3)         | 187.7                   | 42                 | 352.2                | 53                 | 39.9                    | 35                 | 71.3                 | 47                 | 21.3               | 22.5               | 28.1                                          | 19                        | 1.06                          |
| Arllise Seating (6)                 | 822.1                   | 69                 | 1508.9               | 60                 | 21.1                    | 43                 | 27.7                 | 33                 | 2.6                | 3.0                | 2.5                                           | NM                        | 0.03                          |
| Arllise IV Industries (10)          | 363.8                   | 26                 | 683.6                | 21                 | 17.1                    | 26                 | 28.7                 | 27                 | 4.7                | 4.7                | 15.8                                          | 15                        | 1.29                          |
| Arllise Mining & Mfg.               | 3772.0                  | 7                  | 7404.0               | 5                  | 343.0                   | 4                  | 649.0                | -2                 | 9.1                | 9.4                | 19.6                                          | 17                        | 2.93                          |
| Arllise                             | 493.5                   | 32                 | 937.0                | 33                 | 44.0                    | 28                 | 75.5                 | 21                 | 8.9                | 9.3                | 17.8                                          | 20                        | 2.27                          |
| Arllise                             | 531.1                   | 9                  | 1022.7               | 5                  | 56.1                    | 11                 | 106.8                | 7                  | 10.6               | 10.4               | 17.6                                          | 20                        | 1.36                          |
| Arllise                             | 146.9                   | 24                 | 281.4                | 25                 | 14.9                    | 28                 | 25.8                 | 28                 | 10.2               | 9.8                | 16.5                                          | 20                        | 1.19                          |
| Arllise                             | 460.9                   | 10                 | 900.7                | 6                  | 19.3                    | NM                 | 32.6                 | NM                 | 4.2                | NM                 | 15.7                                          | 24                        | 1.61                          |



# CORPORATE SCOREBOARD

| COMPANY                           | SALES                   |                    |                      |                    | PROFITS                 |                    |                      |                    | MARGINS            |                    | RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30 | PRICE-EARNINGS RATIO 7-22 | 12 MONTH EARNING PER SHARE |
|-----------------------------------|-------------------------|--------------------|----------------------|--------------------|-------------------------|--------------------|----------------------|--------------------|--------------------|--------------------|-----------------------------------------------|---------------------------|----------------------------|
|                                   | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 % | 2ND QUARTER 1993 % |                                               |                           |                            |
| (b) MACHINE & HAND TOOLS          |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                            |
| GROUP COMPOSITE                   | 3607.7                  | 14                 | 6896.1               | 11                 | 135.0                   | 38                 | 228.0                | 32                 | 3.7                | 3.1                | 11.1                                          | 21                        | 1.41                       |
| Black & Decker                    | 1221.1                  | 6                  | 2305.7               | 2                  | 23.0                    | 19                 | 37.6                 | 13                 | 1.9                | 1.7                | 9.8                                           | 17                        | 1.05                       |
| Blount (10)                       | 145.7                   | 24                 | 269.7                | 20                 | 9.0                     | 85                 | 13.5                 | 34                 | 6.2                | 4.1                | 17.1                                          | 18                        | 2.22                       |
| Cincinnati Milacron               | 269.3                   | 14                 | 514.8                | 13                 | 7.9                     | 27                 | 12.9                 | 31                 | 2.9                | 2.6                | -34.6                                         | NM                        | -1.26                      |
| Danaher                           | 318.1**                 | 23                 | 607.2                | 20                 | 19.3                    | 51                 | 33.8                 | 48                 | 6.1                | 4.9                | 16.9                                          | 20                        | 2.23                       |
| Nacco Industries                  | 436.9                   | 22                 | 820.2                | 17                 | 9.2                     | NM                 | 12.0                 | NM                 | 2.1                | NM                 | 10.0                                          | 21                        | 2.66                       |
| Snap-on                           | 298.8**                 | 10                 | 597.5                | 10                 | 26.1                    | 17                 | 48.9                 | 20                 | 8.7                | 8.2                | 12.9                                          | 16                        | 2.26                       |
| SPX                               | 289.1                   | 36                 | 566.5                | 45                 | 6.9                     | 27                 | 10.0                 | 73                 | 2.4                | 2.6                | 13.1                                          | 11                        | 1.66                       |
| Stanley Works                     | 628.8                   | 11                 | 1214.5               | 9                  | 33.7                    | 25                 | 59.3                 | 19                 | 5.4                | 4.8                | 14.2                                          | 18                        | 2.27                       |
| (c) SPECIAL MACHINERY             |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                            |
| GROUP COMPOSITE                   | 13307.1                 | 16                 | 25303.2              | 15                 | 823.5                   | 146                | 1565.7               | 197                | 6.2                | 2.9                | 21.9                                          | 15                        | 3.10                       |
| Applied Materials (2)             | 411.3                   | 61                 | 751.8                | 60                 | 55.1                    | 147                | 92.5                 | 150                | 13.4               | 8.7                | 19.3                                          | 24                        | 1.86                       |
| Caterpillar                       | 3605.0                  | 24                 | 6891.0               | 23                 | 240.0                   | 258                | 432.0                | 328                | 6.7                | 2.3                | 39.3                                          | 11                        | 9.97                       |
| Clark Equipment                   | 242.5                   | 29                 | 447.7                | 28                 | 29.8                    | 222                | 55.2                 | 401                | 12.3               | 4.9                | 19.9                                          | 15                        | 4.22                       |
| Deere (2)                         | 2460.2**                | 17                 | 4187.0               | 19                 | 189.3                   | 801                | 276.3                | NM                 | 7.7                | 1.0                | 20.6                                          | 12                        | 5.82                       |
| Dover                             | 761.2                   | 28                 | 1442.0               | 24                 | 52.4                    | 32                 | 95.0                 | 29                 | 6.9                | 6.7                | 20.0                                          | 18                        | 3.14                       |
| Dresser Industries (2)            | 1278.5                  | 2                  | 2636.0               | 11                 | 52.7                    | 527                | 246.1                | 664                | 4.1                | 0.7                | 24.6                                          | 10                        | 2.17                       |
| FMC                               | 1063.3**                | 7                  | 1991.7               | 5                  | 67.3                    | 8                  | 113.4                | 5                  | 6.3                | 6.3                | 17.6                                          | 48                        | 1.24                       |
| General Signal                    | 426.7                   | 10                 | 815.3                | 7                  | 25.0                    | 28                 | 49.6                 | 33                 | 5.9                | 5.0                | 14.2                                          | 21                        | 1.70                       |
| Goulds Pumps                      | 150.2                   | -1                 | 289.4                | 5                  | 6.3                     | -23                | 11.6                 | 0                  | 4.2                | 5.4                | 12.3                                          | 19                        | 1.12                       |
| Harnischfeger Industries (2)      | 260.5**                 | 0                  | 508.8                | 2                  | 2.8                     | -8                 | 4.8                  | 44                 | 1.1                | 1.2                | -4.0                                          | NM                        | -0.68                      |
| Imo Industries                    | 164.9                   | -2                 | 318.6                | -5                 | 1.8                     | -49                | 2.7                  | -31                | 1.1                | 2.1                | NM                                            | NM                        | -2.39                      |
| Ingersoll-Rand                    | 1143.8                  | 14                 | 2154.1               | 10                 | 51.6                    | 44                 | 84.6                 | 40                 | 4.5                | 3.6                | 13.6                                          | 20                        | 1.78                       |
| Interlake                         | 182.1                   | 5                  | 351.4                | 3                  | -2.4                    | NM                 | -4.8                 | NM                 | NM                 | NM                 | NM                                            | NM                        | -1.10                      |
| Pentair                           | 391.9                   | 22                 | 781.2                | 22                 | 11.8                    | 21                 | 22.9                 | 19                 | 3.0                | 3.1                | 13.0                                          | 16                        | 2.45                       |
| Stewart & Stevenson Services (11) | 259.2                   | 18                 | 503.8                | 14                 | 15.0                    | 24                 | 31.9                 | 26                 | 5.8                | 5.5                | 16.1                                          | 22                        | 1.82                       |
| Variety (11)                      | 505.8                   | 11                 | 1233.5               | -3                 | 25.0                    | 66                 | 52.0                 | 98                 | 4.9                | 3.3                | 12.8                                          | 18                        | 2.06                       |
| (d) TEXTILES                      |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                            |
| GROUP COMPOSITE                   | 2791.2                  | 8                  | 5314.3               | 8                  | 108.1                   | -13                | 183.8                | -15                | 3.9                | 4.8                | 13.2                                          | 17                        | 1.13                       |
| Cone Mills                        | 201.7                   | 0                  | 397.6                | 0                  | 9.8                     | -28                | 19.9                 | -24                | 4.9                | 6.8                | 22.7                                          | 9                         | 1.46                       |
| Fieldcrest Cannon                 | 254.8                   | -1                 | 487.1                | 6                  | 6.7                     | 62                 | 12.2                 | 79                 | 2.6                | 1.6                | 8.9                                           | 14                        | 1.88                       |
| Guilford Mills (3)                | 183.2                   | -5                 | 338.8                | -2                 | 8.9                     | -16                | 12.9                 | -24                | 4.9                | 5.6                | 12.2                                          | 18                        | 1.13                       |
| Interface                         | 181.7                   | 21                 | 342.4                | 20                 | 3.7                     | 33                 | 6.5                  | 30                 | 2.0                | 1.9                | 7.0                                           | 15                        | 0.78                       |
| Mohawk Industries                 | 370.5                   | 39                 | 697.6                | 35                 | 12.5                    | 25                 | 12.0                 | -23                | 3.4                | 3.7                | 11.6                                          | 14                        | 1.04                       |
| Shaw Industries (6)               | 722.2                   | 8                  | 1342.3               | 13                 | 43.8                    | 16                 | 69.2                 | 27                 | 6.1                | 5.6                | 17.8                                          | 18                        | 0.91                       |
| Springs Industries                | 515.3                   | 6                  | 1000.5               | 2                  | 13.1                    | 46                 | 18.9                 | 4                  | 2.5                | 1.9                | 8.8                                           | 12                        | 2.70                       |
| Unifi (6)                         | 361.9                   | 0                  | 707.9                | -2                 | 9.6                     | -73                | 32.3                 | -56                | 2.6                | 9.9                | 13.0                                          | 23                        | 1.08                       |
| 16 METALS & MINING                |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                            |
| INDUSTRY COMPOSITE                | 17970.2                 | 10                 | 34376.0              | 10                 | 556.2                   | NM                 | 716.5                | NM                 | 3.1                | NM                 | 0.8                                           | NM                        | -0.06                      |
| (a) ALUMINUM                      |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                            |
| GROUP COMPOSITE                   | 5629.4                  | 6                  | 10613.6              | 4                  | -6.8                    | NM                 | -141.0               | NM                 | NM                 | NM                 | -13.0                                         | NM                        | -3.03                      |
| Alumax                            | 687.0                   | 15                 | 1284.4               | 10                 | 2.7                     | NM                 | -6.2                 | NM                 | 0.4                | NM                 | -10.4                                         | NM                        | -2.56                      |
| Aluminum Co. of America           | 2479.3                  | 3                  | 4700.9               | 4                  | 45.4                    | 29                 | 5.0                  | -92                | 1.8                | 1.5                | -1.6                                          | NM                        | -0.64                      |
| Kaiser Aluminum                   | 459.5                   | 6                  | 874.6                | 0                  | -23.6                   | NM                 | -52.9                | NM                 | NM                 | NM                 | NM                                            | NM                        | -2.70                      |
| Maxxam                            | 543.8                   | 7                  | 1032.8               | 1                  | -43.2                   | NM                 | -77.7                | NM                 | NM                 | NM                 | NM                                            | NM                        | -17.76                     |
| Reynolds Metals                   | 1459.8**                | 7                  | 2720.9               | 5                  | 11.9                    | NM                 | -9.2                 | NM                 | 0.8                | NM                 | -17.8                                         | NM                        | -4.86                      |
| (b) STEEL                         |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                            |
| GROUP COMPOSITE                   | 9238.3                  | 9                  | 17877.3              | 10                 | 371.2                   | NM                 | 490.5                | NM                 | 4.0                | NM                 | 7.7                                           | NM                        | 0.27                       |
| AK Steel Holding                  | 514.8                   | 29                 | 960.7                | 25                 | 34.5                    | NM                 | 44.8                 | NM                 | 6.7                | NM                 | NA                                            | 12                        | 2.13                       |
| Allegheny Ludlum                  | 172.2                   | -38                | 486.1                | -15                | -29.2                   | NM                 | -11.1                | NM                 | NM                 | 6.7                | 5.6                                           | 59                        | 0.35                       |
| Armco                             | 354.9                   | -22                | 734.5                | -17                | 69.9                    | NM                 | 42.7                 | NM                 | 19.7               | NM                 | NM                                            | NM                        | -2.01                      |
| Bethlehem Steel                   | 1230.5                  | 10                 | 2361.7               | 10                 | 26.0                    | NM                 | 38.9                 | NM                 | 2.1                | NM                 | -21.6                                         | NM                        | -2.40                      |
| Carpenter Technology (6)          | 177.9                   | 12                 | 352.2                | 12                 | 15.3                    | 30                 | 28.2                 | 28                 | 8.6                | 7.4                | 16.3                                          | 14                        | 4.55                       |
| Commercial Metals (4)             | 442.8**                 | 1                  | 835.0                | -2                 | 7.1                     | 11                 | 11.4                 | 1                  | 1.6                | 1.5                | 10.6                                          | 16                        | 1.63                       |
| Inland Steel Industries           | 1135.6                  | 14                 | 2211.3               | 14                 | 31.6                    | NM                 | 40.7                 | NM                 | 2.8                | NM                 | 1.1                                           | NM                        | 0.06                       |
| LTV                               | 1128.4                  | 12                 | 2193.3               | 10                 | 37.5                    | -80                | 52.8                 | -62                | 3.3                | 18.7               | 53.8                                          | NA                        | NA                         |
| Lukens                            | 242.2                   | 7                  | 463.1                | 3                  | 6.6                     | -18                | 4.1                  | -71                | 2.7                | 3.5                | 0.1                                           | NM                        | 0.07                       |
| Northwestern Steel & Wire (5)     | 150.4                   | 6                  | 290.6                | 13                 | 1.7                     | -18                | 3.3                  | 117                | 1.1                | 1.4                | 8.6                                           | 77                        | 0.12                       |
| Nucor                             | 740.1                   | 31                 | 1389.8               | 32                 | 49.7                    | NM                 | 84.6                 | NM                 | 6.7                | NM                 | 16.7                                          | 39                        | 1.79                       |
| Oregon Steel Mills                | 230.1                   | 13                 | 444.9                | 26                 | 3.4                     | -63                | 7.1                  | -56                | 1.5                | 4.5                | 2.1                                           | 66                        | 0.29                       |
| Quanex (2)                        | 172.2                   | 7                  | 321.8                | 6                  | 3.8                     | 99                 | 5.5                  | 132                | 2.2                | 1.2                | 4.1                                           | 52                        | 0.41                       |
| USX-U. S. Steel Group             | 1534.0                  | 8                  | 2918.0               | 11                 | 56.0                    | NM                 | 21.0                 | NM                 | 3.7                | NM                 | 20.0                                          | 17                        | 2.17                       |
| Weirton Steel                     | 335.5                   | 11                 | 660.7                | 10                 | 18.6                    | NM                 | 21.5                 | NM                 | 5.6                | NM                 | NM                                            | 23                        | 0.41                       |
| WHX                               | 300.4                   | 12                 | 554.2                | 10                 | 12.9                    | 40                 | 49.3                 | 672                | 4.3                | 3.4                | 13.6                                          | 9                         | 2.24                       |
| Worthington Industries (7)        | 376.2                   | 15                 | 699.4                | 16                 | 25.8                    | 10                 | 45.5                 | 18                 | 6.9                | 7.2                | 17.9                                          | 21                        | 0.94                       |
| (c) OTHER METALS                  |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |                                               |                           |                            |
| GROUP COMPOSITE                   | 3102.6                  | 24                 | 5885.1               | 23                 | 191.7                   | 521                | 367.0                | 541                | 6.2                | 1.2                | 6.8                                           | 37                        | 0.69                       |
| Asarco                            | 487.8                   | 17                 | 930.8                | 6                  | 5.4                     | NM                 | 32.0                 | NM                 | 1.1                | NM                 | 1.1                                           | 82                        | 0.38                       |
| Cyprus Amax Minerals              | 697.0                   | 54                 | 1285.0               | 55                 | 32.0                    | -61                | 51.0                 | -46                | 4.6                | 18.1               | 2.0                                           | 50                        | 0.61                       |
| Freeport-McMoRan                  | 468.4                   | 11                 | 918.0                | 27                 | 13.9                    | NM                 | 37.3                 | NM                 | 3.0                | NM                 | NM                                            | 71                        | 0.24                       |
| Freeport-McMoRan Copper & Gold    | 281.5                   | 31                 | 547.6                | 57                 | 22.3                    | NM                 | 48.2                 | NM                 | 7.9                | NM                 | 19.3                                          | 64                        | 0.36                       |
| Homestake Mining                  | 168.0                   | -9                 | 334.0                | -4                 | 33.0                    | 192                | 57.2                 | 239                | 19.6               | 6.1                | 16.4                                          | 28                        | 0.67                       |
| Magma Copper                      | 219.5                   | 15                 | 395.1                | 3                  | 20.6                    | 337                | 28.2                 | 466                | 9.4                | 2.5                | 5.4                                           | 22                        | 0.79                       |
| Phelps Dodge                      | 780.4                   | 24                 | 1474.7               | 14                 | 64.6                    | 40                 | 113.2                | 6                  | 8.3                | 7.4                | 9.5                                           | 22                        | 2.74                       |

# CORPORATE SCOREBOARD

| COMPANY                          | SALES                            |                             |                               |                             | PROFITS                          |                             |                               |                             | MARGINS                     |                             | RETURN ON<br>COMMON<br>EQUITY<br>12 MONTHS<br>ENDING<br>6-30 | PRICE-<br>EARNINGS<br>RATIO<br>7-22 | 12<br>MONTHS'<br>EARNINGS<br>PER<br>SHARE |
|----------------------------------|----------------------------------|-----------------------------|-------------------------------|-----------------------------|----------------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------------------------------------------|-------------------------------------|-------------------------------------------|
|                                  | 2ND<br>QUARTER<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>% | 2ND<br>QUARTER<br>1993<br>% |                                                              |                                     |                                           |
| IONBANK FINANCIAL                |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |                                                              |                                     |                                           |
| INDUSTRY COMPOSITE               | 65886.7                          | 9                           | 131550.1                      | 12                          | 5215.3                           | -6                          | 9963.2                        | -3                          | 7.9                         | 9.1                         | 13.3                                                         | 12                                  | 3.29                                      |
| FINANCIAL SERVICES               |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |                                                              |                                     |                                           |
| GROUP COMPOSITE                  | 33601.3                          | 16                          | 67311.0                       | 21                          | 2707.8                           | -21                         | 5904.4                        | 2                           | 8.1                         | 11.7                        | 18.3                                                         | 10                                  | 3.92                                      |
| Alexander & Alexander Services   | 335.1                            | -2                          | 658.1                         | -1                          | 3.8                              | -71                         | 2.0                           | -91                         | 1.1                         | 3.8                         | -1.7                                                         | NM                                  | -0.11                                     |
| Allegheny                        | 468.2                            | 18                          | 948.2                         | 24                          | 16.3                             | 0                           | 33.3                          | -27                         | 3.5                         | 4.1                         | 8.6                                                          | 13                                  | 11.26                                     |
| American Express                 | 3508.0                           | 6                           | 6881.0                        | 7                           | 360.0                            | 20                          | 677.0                         | -32                         | 10.3                        | 9.1                         | 14.2                                                         | 10                                  | 2.49                                      |
| F&T Capital                      | 332.2                            | 5                           | 658.2                         | 2                           | 18.9                             | 37                          | 34.7                          | 22                          | 5.7                         | 4.3                         | 8.3                                                          | 13                                  | 1.66                                      |
| Bar Stearns (6)                  | 770.2                            | -13                         | 1669.2                        | 3                           | 32.4                             | -74                         | 147.8                         | -37                         | 4.2                         | 14.1                        | 22.0                                                         | 6                                   | 2.89                                      |
| Beneficial                       | 511.1                            | 6                           | 1048.3                        | 7                           | 56.2                             | 16                          | 117.1                         | 19                          | 11.0                        | 10.1                        | 16.1                                                         | 10                                  | 3.81                                      |
| Bank (H&R) (8)                   | 774.7**                          | 11                          | 1004.2                        | 13                          | 194.3                            | 7                           | 176.4                         | -6                          | 25.1                        | 26.0                        | 30.2                                                         | 25                                  | 1.54                                      |
| Barrford                         | 147.8                            | 1                           | 296.6                         | 1                           | 10.4                             | 7                           | 20.5                          | 8                           | 7.1                         | 6.6                         | 18.4                                                         | 15                                  | 1.10                                      |
| Bear Stearns, Discover           | 1236.5**                         | 8                           | 2506.6                        | 13                          | 206.9                            | 32                          | 416.4                         | 42                          | 16.7                        | 13.7                        | 20.9                                                         | 9                                   | 4.26                                      |
| Bear Stearns, Discover           | 301.6                            | -4                          | 623.7                         | 1                           | 30.6                             | -20                         | 70.6                          | -5                          | 10.1                        | 12.1                        | 18.1                                                         | 7                                   | 2.43                                      |
| Equifax                          | 342.7                            | 15                          | 662.0                         | 15                          | 28.7                             | 24                          | 53.0                          | 28                          | 8.4                         | 7.8                         | 33.9                                                         | 28                                  | 1.01                                      |
| First Interstate                 | 4496.1**                         | 15                          | 8799.7                        | 13                          | 535.0                            | 7                           | 1053.8                        | 7                           | 11.9                        | 12.8                        | 24.9                                                         | 11                                  | 7.71                                      |
| Federal Home Loan Mortgage       | 1626.0                           | 23                          | 3200.0                        | 29                          | 249.0                            | 38                          | 526.0                         | 38                          | 15.3                        | 13.7                        | 19.7                                                         | 12                                  | 4.80                                      |
| First American Financial         | 369.0**                          | 11                          | 741.4                         | 21                          | 7.6                              | -56                         | 17.0                          | -23                         | 2.1                         | 5.3                         | 19.4                                                         | 5                                   | 5.01                                      |
| First Financial Management       | 488.7**                          | 24                          | 921.2                         | 24                          | 34.1                             | 22                          | 61.6                          | 25                          | 7.0                         | 7.1                         | 11.0                                                         | 24                                  | 2.30                                      |
| Franklin Resources (3)           | 204.9                            | 23                          | 418.5                         | 29                          | 60.0                             | 34                          | 128.6                         | 48                          | 29.3                        | 26.9                        | 29.2                                                         | 13                                  | 2.88                                      |
| Shuman Brothers Holdings         | 696.0                            | NA                          | 1544.0                        | NA                          | 20.0                             | -83                         | 75.0                          | NM                          | 2.9                         | NA                          | 20.0                                                         | 6                                   | 2.44                                      |
| Marsh & McLennan                 | 840.5                            | 7                           | 1750.7                        | 8                           | 95.7                             | 11                          | 226.4                         | 17                          | 11.4                        | 11.0                        | 26.5                                                         | 17                                  | 4.95                                      |
| Merrill Lynch                    | 4480.3**                         | 13                          | 9219.1                        | 16                          | 251.8                            | -27                         | 623.6                         | -9                          | 5.6                         | 8.7                         | 23.6                                                         | 6                                   | 5.97                                      |
| Morgan Stanley Group (11)        | 2292.0                           | 5                           | 4373.0                        | 10                          | 117.0                            | -41                         | 298.2                         | -12                         | 5.1                         | 9.1                         | 17.3                                                         | 7                                   | 8.42                                      |
| Prudential                       | 902.3**                          | -6                          | 1984.8                        | 5                           | -25.1                            | NM                          | 30.6                          | -77                         | NM                          | 6.2                         | 12.0                                                         | 9                                   | 1.90                                      |
| State Street                     | 711.5                            | 11                          | 1356.6                        | 3                           | 108.7                            | -22                         | 230.6                         | -19                         | 15.3                        | 21.7                        | 36.7                                                         | 6                                   | 5.95                                      |
| Salomon                          | 1283.0**                         | -50                         | 3052.0                        | -27                         | -204.0                           | NM                          | -138.0                        | NM                          | NM                          | 16.8                        | 7.7                                                          | 16                                  | 2.80                                      |
| Schwab (Charles)                 | 258.2**                          | 11                          | 546.1                         | 17                          | 32.1                             | 2                           | 70.3                          | 5                           | 12.4                        | 13.6                        | 32.6                                                         | 12                                  | 2.16                                      |
| SunAmerica (3)                   | 223.4**                          | 0                           | 442.4                         | 2                           | 42.1                             | 24                          | 82.1                          | 29                          | 18.8                        | 15.2                        | 19.8                                                         | 13                                  | 3.38                                      |
| SunAmerica                       | 1400.0**                         | 17                          | 2635.4                        | 12                          | 104.7                            | -11                         | 209.4                         | 0                           | 7.5                         | 9.8                         | 13.6                                                         | 9                                   | 5.50                                      |
| Travelers                        | 4601.4**                         | 258                         | 9369.9                        | 262                         | 320.5                            | 72                          | 660.3                         | 68                          | 7.0                         | 14.5                        | 14.4                                                         | 8                                   | 4.13                                      |
| INSURANCE                        |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |                                                              |                                     |                                           |
| GROUP COMPOSITE                  | 29697.6                          | 3                           | 59103.8                       | 4                           | 2276.9                           | 0                           | 3761.1                        | -14                         | 7.7                         | 7.9                         | 9.5                                                          | 16                                  | 2.85                                      |
| Aetna Life & Casualty            | 4405.0**                         | 1                           | 8718.6                        | 1                           | 132.4                            | -12                         | 178.1                         | -39                         | 3.0                         | 3.5                         | -11.3                                                        | NM                                  | -6.48                                     |
| FLAC                             | 1481.2                           | 20                          | 2873.2                        | 22                          | 69.4                             | 18                          | 139.3                         | 24                          | 4.7                         | 4.8                         | 15.8                                                         | 13                                  | 2.59                                      |
| Allstate                         | 5320.0                           | 2                           | 10640.0                       | 3                           | 402.0                            | 1                           | 126.8                         | -82                         | 7.6                         | 7.6                         | 8.0                                                          | 16                                  | 1.57                                      |
| American General                 | 2071.3**                         | 6                           | 4139.0                        | 6                           | 157.7                            | 5                           | 318.7                         | 8                           | 7.6                         | 7.7                         | 6.0                                                          | 22                                  | 1.29                                      |
| American International Group     | 5625.8**                         | 12                          | 10851.6                       | 12                          | 549.7                            | 14                          | 1055.3                        | 10                          | 9.8                         | 9.6                         | 13.0                                                         | 14                                  | 6.36                                      |
| American National Insurance      | 353.0                            | 3                           | 673.6                         | -2                          | 53.5                             | -2                          | 89.8                          | -15                         | 15.2                        | 15.9                        | NA                                                           | 8                                   | 6.39                                      |
| Bankers Life Holding             | 355.8                            | -2                          | 704.8                         | -2                          | 30.0                             | -13                         | 56.6                          | -12                         | 8.4                         | 9.5                         | 23.9                                                         | 9                                   | 2.36                                      |
| Cincinnati Financial             | 378.8                            | 2                           | 758.5                         | 5                           | 59.1                             | -5                          | 107.6                         | -10                         | 15.6                        | 16.7                        | 10.0                                                         | 14                                  | 3.70                                      |
| Conseco                          | 411.3**                          | -34                         | 897.2                         | -35                         | 34.2                             | -33                         | 116.7                         | -40                         | 8.3                         | 8.2                         | 30.5                                                         | 6                                   | 7.52                                      |
| General                          | 158.0                            | -7                          | 314.1                         | -2                          | 14.1                             | 39                          | 27.6                          | 42                          | 8.9                         | 6.0                         | 13.8                                                         | 7                                   | 3.35                                      |
| Hartford Steam Boiler Inspection | 152.5                            | -6                          | 303.1                         | -6                          | 14.3                             | 160                         | 26.2                          | 12                          | 9.4                         | 3.4                         | 5.1                                                          | 55                                  | 0.79                                      |
| Horace Mann Educators            | 175.9                            | 0                           | 356.0                         | 0                           | 15.9                             | -19                         | 28.0                          | -28                         | 9.0                         | 11.2                        | 14.9                                                         | 11                                  | 2.29                                      |
| Jefferson-Pilot                  | 328.5                            | 7                           | 649.0                         | 6                           | 58.4                             | 12                          | 112.6                         | 10                          | 17.8                        | 17.0                        | 13.0                                                         | 11                                  | 4.65                                      |
| John Alden Financial             | 371.9                            | 7                           | 715.4                         | 6                           | 23.9                             | 21                          | 43.6                          | 11                          | 6.4                         | 5.7                         | 23.8                                                         | 11                                  | 3.36                                      |
| Imperial                         | 407.9**                          | 6                           | 874.2                         | 9                           | 20.8                             | NM                          | 75.1                          | NM                          | 5.1                         | NM                          | -0.8                                                         | NM                                  | 0.23                                      |
| Lincoln National                 | 1539.7                           | -19                         | 3502.5                        | -9                          | 46.8                             | -63                         | 197.8                         | 1                           | 3.0                         | 6.7                         | 12.1                                                         | 11                                  | 4.04                                      |
| WNL                              | 381.3                            | 2                           | 762.3                         | 3                           | 26.5                             | 25                          | 52.5                          | 33                          | 7.0                         | 5.7                         | 11.1                                                         | 11                                  | 2.96                                      |
| Paul Revere                      | 350.1                            | 23                          | 670.9                         | 18                          | 33.0                             | 57                          | 59.4                          | 43                          | 9.4                         | 7.4                         | 9.2                                                          | 8                                   | 2.31                                      |
| Progressive                      | 594.0**                          | 20                          | 1116.4                        | 20                          | 60.5                             | -24                         | 108.6                         | -17                         | 10.2                        | 16.1                        | 25.3                                                         | 11                                  | 3.18                                      |
| Protective Life                  | 203.8                            | 10                          | 399.3                         | 12                          | 16.4                             | 22                          | 33.0                          | 30                          | 8.1                         | 7.3                         | 20.1                                                         | 9                                   | 4.68                                      |
| Refco                            | 926.7**                          | 1                           | 1843.0                        | 3                           | 90.0                             | -30                         | 146.1                         | -28                         | 9.7                         | 14.0                        | 12.0                                                         | 10                                  | 5.88                                      |
| R. Paul                          | 1165.1                           | 9                           | 2328.9                        | 7                           | 127.8                            | 18                          | 192.2                         | -2                          | 11.0                        | 10.1                        | 15.4                                                         | 8                                   | 4.88                                      |
| Archmark                         | 464.4                            | -15                         | 963.1                         | -10                         | 64.9                             | -17                         | 140.5                         | 9                           | 14.0                        | 14.4                        | 22.1                                                         | 10                                  | 3.94                                      |
| Transatlantic Holdings           | 228.2                            | 34                          | 457.1                         | 37                          | 26.9                             | 24                          | 46.1                          | 12                          | 11.8                        | 12.7                        | 12.4                                                         | 14                                  | 4.01                                      |
| Nitro                            | 340.8                            | 1                           | 679.3                         | 1                           | 28.3                             | -23                         | 53.6                          | -30                         | 8.3                         | 10.9                        | 3.6                                                          | 28                                  | 1.40                                      |
| NUM                              | 928.0                            | 9                           | 1805.4                        | 8                           | 85.3                             | 6                           | 162.4                         | 4                           | 9.2                         | 9.5                         | 15.1                                                         | 11                                  | 4.15                                      |
| SLife                            | 428.9                            | 5                           | 819.6                         | 4                           | 24.2                             | 2                           | 47.8                          | 8                           | 5.6                         | 5.8                         | 10.0                                                         | 8                                   | 4.40                                      |
| Smith National Insurance         | 149.6                            | 0                           | 287.8                         | -2                          | 10.9                             | -28                         | 19.1                          | -31                         | 7.3                         | 10.1                        | 13.5                                                         | 10                                  | 2.33                                      |
| SAVINGS & LOAN                   |                                  |                             |                               |                             |                                  |                             |                               |                             |                             |                             |                                                              |                                     |                                           |
| GROUP COMPOSITE                  | 2587.8                           | 3                           | 5135.3                        | 0                           | 230.6                            | NM                          | 297.7                         | 176                         | 8.9                         | NM                          | 4.8                                                          | 23                                  | 0.97                                      |
| Chamson (H. F.)                  | 774.8                            | 17                          | 1553.5                        | 5                           | 73.5                             | NM                          | 128.9                         | NM                          | 9.5                         | NM                          | 6.7                                                          | 12                                  | 1.69                                      |
| Fidelity Federal Bank (6)        | 274.5                            | -3                          | 545.2                         | -5                          | -4.8                             | NM                          | -148.8                        | NM                          | NM                          | NM                          | -26.8                                                        | NM                                  | -7.69                                     |
| Golden West Financial            | 468.9                            | -3                          | 932.0                         | -3                          | 61.9                             | -12                         | 127.2                         | -11                         | 13.2                        | 14.5                        | 12.4                                                         | 10                                  | 4.06                                      |
| Great Western Financial          | 708.9                            | -4                          | 1407.7                        | -5                          | 55.9                             | 6                           | 105.3                         | 8                           | 7.9                         | 7.1                         | 2.1                                                          | 59                                  | 0.33                                      |
| Metropolitan Financial           | 160.1                            | 15                          | 299.7                         | 13                          | 14.4                             | -5                          | 26.6                          | -13                         | 9.0                         | 10.9                        | 12.2                                                         | 12                                  | 1.87                                      |
| Standard Federal Bank            | 200.6                            | 5                           | 397.2                         | 4                           | 29.7                             | 0                           | 58.5                          | 8                           | 14.8                        | 15.5                        | 16.3                                                         | 7                                   | 3.73                                      |



# CORPORATE SCOREBOARD

| COMPANY                               | SALES                   |                    |                      |                    | PROFITS                 |                    |                      |                    | MARGINS            |                    |       |    | RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30 | PRICE-EARNINGS RATIO 7-22 | MONTHS EARNINGS IN SP. E |
|---------------------------------------|-------------------------|--------------------|----------------------|--------------------|-------------------------|--------------------|----------------------|--------------------|--------------------|--------------------|-------|----|-----------------------------------------------|---------------------------|--------------------------|
|                                       | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 \$ MIL | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL | CHANGE FROM 1993 % | 2ND QUARTER 1994 % | 2ND QUARTER 1993 % |       |    |                                               |                           |                          |
| 18 OFFICE EQUIPMENT & COMPUTERS       |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |    |                                               |                           |                          |
| INDUSTRY COMPOSITE                    | 58306.9                 | 11                 | 111397.5             | 11                 | 1621.6                  | NM                 | 4231.7               | NM                 | 2.8                | NM                 | 6.8   | 41 | 0.9                                           |                           |                          |
| (a) BUSINESS MACHINES & SERVICES      |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |    |                                               |                           |                          |
| GROUP COMPOSITE                       | 4923.7                  | 19                 | 9570.5               | 18                 | 249.1                   | 36                 | 493.4                | 23                 | 5.1                | 4.8                | 15.9  | 18 | 1.1                                           |                           |                          |
| Bell & Howell                         | 169.1                   | 2                  | 331.7                | 1                  | -0.7                    | NM                 | -1.4                 | NM                 | NM                 | 0.6                | NM    | NA | NA                                            |                           |                          |
| CompuCom Systems                      | 306.6                   | 28                 | 587.5                | 33                 | 3.3                     | 25                 | 6.0                  | 35                 | 1.1                | 1.1                | 21.3  | 11 | 0.9                                           |                           |                          |
| CUC International (11)                | 242.9                   | 18                 | 476.1                | 18                 | 26.6                    | 40                 | 51.8                 | 40                 | 11.0               | 9.3                | 28.9  | 35 | 0.9                                           |                           |                          |
| Deluxe                                | 412.3                   | 14                 | 842.3                | 10                 | 29.6                    | NM                 | 67.6                 | 25                 | 7.2                | 0.6                | 19.4  | 14 | 1.1                                           |                           |                          |
| Diebold                               | 188.1                   | 25                 | 364.8                | 28                 | 16.2                    | 37                 | 28.9                 | 41                 | 8.6                | 7.9                | 13.1  | 23 | 1.1                                           |                           |                          |
| HON Industries                        | 193.0                   | 9                  | 393.7                | 8                  | 9.2                     | 12                 | 20.9                 | 28                 | 4.8                | 4.6                | 27.2  | 17 | 1.1                                           |                           |                          |
| Intelligent Electronics (11)          | 762.3                   | 24                 | 1502.3               | 27                 | 12.8                    | 54                 | 25.5                 | 70                 | 1.7                | 1.3                | 19.9  | 11 | 1.1                                           |                           |                          |
| MicroAge(2)                           | 529.6                   | NA                 | 1000.0               | NA                 | 5.2                     | NA                 | 9.7                  | NA                 | 1.0                | NA                 | NA    | NA | NA                                            |                           |                          |
| Miller (Herman) (7)                   | 247.9                   | 6                  | 489.8                | 9                  | 10.5                    | 19                 | 21.7                 | 35                 | 4.3                | 3.8                | 13.6  | 18 | 1.1                                           |                           |                          |
| Pitney Bowes                          | 954.9                   | 9                  | 1831.6               | 7                  | 98.6                    | 13                 | 190.5                | 12                 | 10.3               | 10.0               | 20.5  | 15 | 2.8                                           |                           |                          |
| Reynolds & Reynolds (3)               | 202.3                   | 19                 | 407.8                | 20                 | 18.1                    | 35                 | 33.6                 | 25                 | 8.9                | 7.9                | 21.2  | 18 | 1.1                                           |                           |                          |
| Standard Register                     | 184.3                   | 5                  | 368.2                | 7                  | 10.6                    | 11                 | 20.6                 | 9                  | 5.7                | 5.5                | 11.6  | 14 | 1.1                                           |                           |                          |
| Tech Data (11)                        | 530.5                   | 60                 | 974.5                | 58                 | 9.2                     | 43                 | 18.0                 | 48                 | 1.7                | 1.9                | 14.1  | 18 | 0.9                                           |                           |                          |
| (b) COMPUTERS & PERIPHERALS           |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |    |                                               |                           |                          |
| GROUP COMPOSITE                       | 44772.6                 | 10                 | 84950.4              | 9                  | 374.6                   | NM                 | 1701.8               | NM                 | 0.3                | NM                 | 2.5   | 82 | 0.9                                           |                           |                          |
| Amdahl                                | 396.9                   | -14                | 775.7                | -8                 | 12.5                    | NM                 | 19.6                 | NM                 | 3.2                | NM                 | -37.2 | NM | -2                                            |                           |                          |
| Apple Computer (3)                    | 2149.9                  | 15                 | 4226.6               | 10                 | 138.1                   | NM                 | 155.5                | NM                 | 6.4                | NM                 | 8.8   | 19 | 1                                             |                           |                          |
| AST Research (6)                      | 584.5                   | 43                 | 1175.9               | 51                 | 14.1                    | NM                 | 27.3                 | NM                 | 2.4                | NM                 | 13.9  | 9  | 1                                             |                           |                          |
| Compaq Computer                       | 2499.0                  | 53                 | 4777.0               | 47                 | 210.0                   | 105                | 423.0                | 107                | 8.4                | 6.3                | 21.7  | 12 | 2                                             |                           |                          |
| Conner Peripherals                    | 650.1                   | 33                 | 1214.0               | 16                 | 31.5                    | NM                 | 55.3                 | NM                 | 4.8                | NM                 | NM    | NM | -6                                            |                           |                          |
| Cray Research                         | 215.8                   | 15                 | 464.7                | 19                 | 8.2                     | 31                 | 30.2                 | 42                 | 3.8                | 3.3                | 8.7   | 8  | 2                                             |                           |                          |
| Data General (3)                      | 283.8                   | 12                 | 566.7                | 9                  | -12.4                   | NM                 | -60.3                | NM                 | NM                 | NM                 | -38.7 | NM | -3                                            |                           |                          |
| Dell Computer (11)                    | 766.6                   | 14                 | 1509.6               | 17                 | 19.0                    | 86                 | 36.7                 | -12                | 2.5                | 1.5                | -6.8  | NM | -0                                            |                           |                          |
| Digital Equipment (6)                 | 3923.0                  | 0                  | 7181.8               | -3                 | -1746.3                 | NM                 | -1929.6              | NM                 | NM                 | 2.9                | -42.0 | NM | -15                                           |                           |                          |
| EMC                                   | 308.1                   | 72                 | 575.2                | 81                 | 54.6                    | 103                | 103.4                | 147                | 17.7               | 15.0               | 39.9  | 16 | 0                                             |                           |                          |
| Gateway 2000                          | 616.5                   | 69                 | 1232.5               | 57                 | 3.8                     | -80                | 29.1                 | -35                | 0.6                | 5.2                | 36.3  | NA | NA                                            |                           |                          |
| Hewlett-Packard (2)                   | 6254.0                  | 23                 | 11936.0              | 23                 | 408.0                   | 18                 | 776.0                | 28                 | 6.5                | 6.8                | 14.5  | 14 | 5                                             |                           |                          |
| Intergraph                            | 242.4                   | -3                 | 482.5                | -9                 | -20.2                   | NM                 | -34.2                | NM                 | NM                 | NM                 | -21.4 | NM | -2                                            |                           |                          |
| International Business Machines       | 15351.0                 | -1                 | 28724.0              | 1                  | 689.0                   | NM                 | 1080.0               | NM                 | 4.5                | NM                 | 6.8   | 26 | 2                                             |                           |                          |
| Maxtor (9)                            | 218.3                   | -16                | 478.7                | -21                | -12.2                   | NM                 | -16.7                | NM                 | NM                 | NM                 | NM    | NM | -6                                            |                           |                          |
| Quantum (9)                           | 725.3                   | 51                 | 1360.3               | 38                 | 58.2                    | NM                 | 96.7                 | 226                | 8.0                | 0.7                | 14.0  | 13 | 1                                             |                           |                          |
| Seagate Technology (6)                | 1001.1                  | 30                 | 1910.3               | 25                 | 79.3                    | 136                | 146.3                | 102                | 7.9                | 4.4                | 18.3  | 8  | 3                                             |                           |                          |
| Silicon Graphics (6)                  | 433.3                   | 36                 | 809.6                | 37                 | 43.5                    | 34                 | 78.6                 | 49                 | 10.0               | 10.1               | 17.8  | 24 | 0                                             |                           |                          |
| Storage Technology                    | 360.9                   | 1                  | 696.5                | 0                  | 14.4                    | NM                 | -5.2                 | NM                 | 4.0                | NM                 | -13.1 | NM | -3                                            |                           |                          |
| Sun Microsystems (6)                  | 1402.7                  | 11                 | 2598.7               | 8                  | 77.9                    | 2                  | 135.4                | 6                  | 5.6                | 6.0                | 12.6  | 11 | 2                                             |                           |                          |
| Tandem Computers (3)                  | 543.9                   | 14                 | 1028.1               | 4                  | 48.5                    | NM                 | 74.3                 | NM                 | 8.9                | NM                 | 12.8  | 15 | 0                                             |                           |                          |
| Unisys                                | 1799.2                  | -7                 | 3488.1               | -9                 | 49.9                    | -52                | 117.6                | -26                | 2.8                | 5.3                | 18.7  | 7  | 1                                             |                           |                          |
| Western Digital (6)                   | 462.2                   | 62                 | 883.1                | 45                 | 37.3                    | NM                 | 65.7                 | NM                 | 8.1                | NM                 | 29.6  | 8  | 1                                             |                           |                          |
| Xerox                                 | 3584.0**                | 4                  | 6855.0               | 3                  | 168.0                   | 65                 | 297.0                | 39                 | 4.7                | 3.0                | -7.3  | NM | -2                                            |                           |                          |
| (c) COMPUTER SOFTWARE & SERVICES      |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |    |                                               |                           |                          |
| GROUP COMPOSITE                       | 8610.5                  | 18                 | 16876.6              | 17                 | 997.8                   | 22                 | 2036.5               | 26                 | 11.6               | 11.2               | 18.6  | 31 | 1                                             |                           |                          |
| Cabletron Systems (10)                | 180.7                   | 37                 | 348.8                | 37                 | 36.2                    | 38                 | 69.7                 | 37                 | 20.0               | 19.9               | 28.0  | 23 | 4                                             |                           |                          |
| Ceridian                              | 218.5                   | -3                 | 439.8                | -2                 | 16.4                    | 95                 | 38.6                 | 81                 | 7.5                | 3.7                | -8.9  | NM | -0                                            |                           |                          |
| Cirrus Logic (9)                      | 176.0                   | 77                 | 346.1                | 70                 | 15.0                    | NM                 | 29.6                 | NM                 | 8.5                | NM                 | 16.5  | 13 | 2                                             |                           |                          |
| Cisco Systems (5)                     | 331.2                   | 92                 | 633.4                | 100                | 84.3                    | 82                 | 161.8                | 90                 | 25.5               | 26.9               | 37.2  | 19 | 1                                             |                           |                          |
| Comdisco (3)                          | 494.0**                 | -4                 | 1023.0               | -2                 | 24.0                    | 4                  | 48.0                 | 9                  | 4.9                | 4.5                | 13.1  | 9  | 2                                             |                           |                          |
| Computer Associates International (9) | 476.6                   | 13                 | 1110.4               | 15                 | -85.6                   | NM                 | 73.2                 | -44                | NM                 | 7.3                | 22.9  | 25 | 1                                             |                           |                          |
| Computer Sciences (9)                 | 738.1                   | 21                 | 1469.0               | 17                 | 21.8                    | 20                 | 54.6                 | 23                 | 3.0                | 3.0                | 11.7  | 24 | 1                                             |                           |                          |
| Computervision                        | 150.9                   | -30                | 299.8                | -32                | 2.0                     | NM                 | 2.5                  | NM                 | 1.3                | NM                 | NM    | NM | -11                                           |                           |                          |
| Electronic Data Systems               | 2334.0**                | 12                 | 4573.3               | 10                 | 197.3                   | 11                 | 369.0                | 12                 | 8.5                | 8.5                | 20.3  | 21 | 1                                             |                           |                          |
| First Data                            | 409.6                   | 8                  | 785.4                | 8                  | 46.5                    | 19                 | 90.2                 | 20                 | 11.4               | 10.3               | 18.7  | 25 | 1                                             |                           |                          |
| Gtech Holdings (10)                   | 180.9                   | 18                 | 344.6                | 18                 | 16.9                    | -3                 | 28.9                 | 13                 | 9.3                | 11.3               | 22.3  | 16 | 1                                             |                           |                          |
| Lotus Development                     | 225.4                   | -4                 | 471.0                | 2                  | 9.7                     | NM                 | 31.1                 | 308                | 4.3                | NM                 | 13.9  | 19 | 1                                             |                           |                          |
| Microsoft (6)                         | 1293.0                  | 24                 | 2537.0               | 27                 | 362.0                   | 37                 | 618.0                | 22                 | 28.0               | 25.5               | 28.6  | 27 | 1                                             |                           |                          |
| Novell (2)                            | 406.6                   | 45                 | 718.0                | 33                 | 104.9                   | 30                 | 177.7                | 17                 | 25.8               | 28.7               | -0.7  | NM | -0                                            |                           |                          |
| Oracle Systems (7)                    | 668.1                   | 41                 | 1150.9               | 37                 | 114.5                   | 66                 | 184.2                | 87                 | 17.1               | 14.6               | 36.4  | 38 | 0                                             |                           |                          |
| Sybase                                | 158.1                   | 64                 | 296.0                | 68                 | 15.7                    | 72                 | 27.3                 | 78                 | 9.9                | 9.4                | 25.8  | 37 | 1                                             |                           |                          |
| SynOptics Communications              | 168.7                   | -6                 | 330.1                | -1                 | 16.1                    | -34                | 32.0                 | -31                | 9.6                | 13.6               | 16.5  | 16 | 0                                             |                           |                          |
| 19 PAPER & FOREST PRODUCTS            |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |    |                                               |                           |                          |
| INDUSTRY COMPOSITE                    | 22442.6                 | 4                  | 43400.3              | 3                  | 631.9                   | 7                  | 1147.6               | -3                 | 2.8                | 2.7                | -2.1  | 47 | -0.9                                          |                           |                          |
| (a) FOREST PRODUCTS                   |                         |                    |                      |                    |                         |                    |                      |                    |                    |                    |       |    |                                               |                           |                          |
| GROUP COMPOSITE                       | 5938.7                  | 6                  | 11454.2              | 5                  | 109.3                   | 29                 | 254.3                | 5                  | 1.8                | 1.5                | 3.9   | 53 | 0.9                                           |                           |                          |
| Boise Cascade                         | 1075.4                  | 10                 | 2089.5               | 7                  | -19.2                   | NM                 | -56.8                | NM                 | NM                 | NM                 | -16.8 | NM | -4                                            |                           |                          |
| Georgia-Pacific                       | 3202.0                  | 0                  | 6157.0               | 0                  | 14.0                    | 180                | 70.0                 | 52                 | 0.4                | 0.2                | 0.2   | NM | 0                                             |                           |                          |
| Louisiana-Pacific                     | 774.7                   | 30                 | 1472.7               | 18                 | 81.9                    | 25                 | 167.1                | 9                  | 10.6               | 11.0               | 16.4  | 14 | 2                                             |                           |                          |
| Pope & Talbot                         | 157.9                   | 4                  | 326.7                | 2                  | 2.8                     | -40                | 11.4                 | -27                | 1.8                | 3.1                | 7.5   | 13 | 1                                             |                           |                          |
| Willamette Industries                 | 728.7                   | 11                 | 1408.4               | 9                  | 29.7                    | 12                 | 62.6                 | 9                  | 4.1                | 4.1                | 8.9   | 23 | 2                                             |                           |                          |

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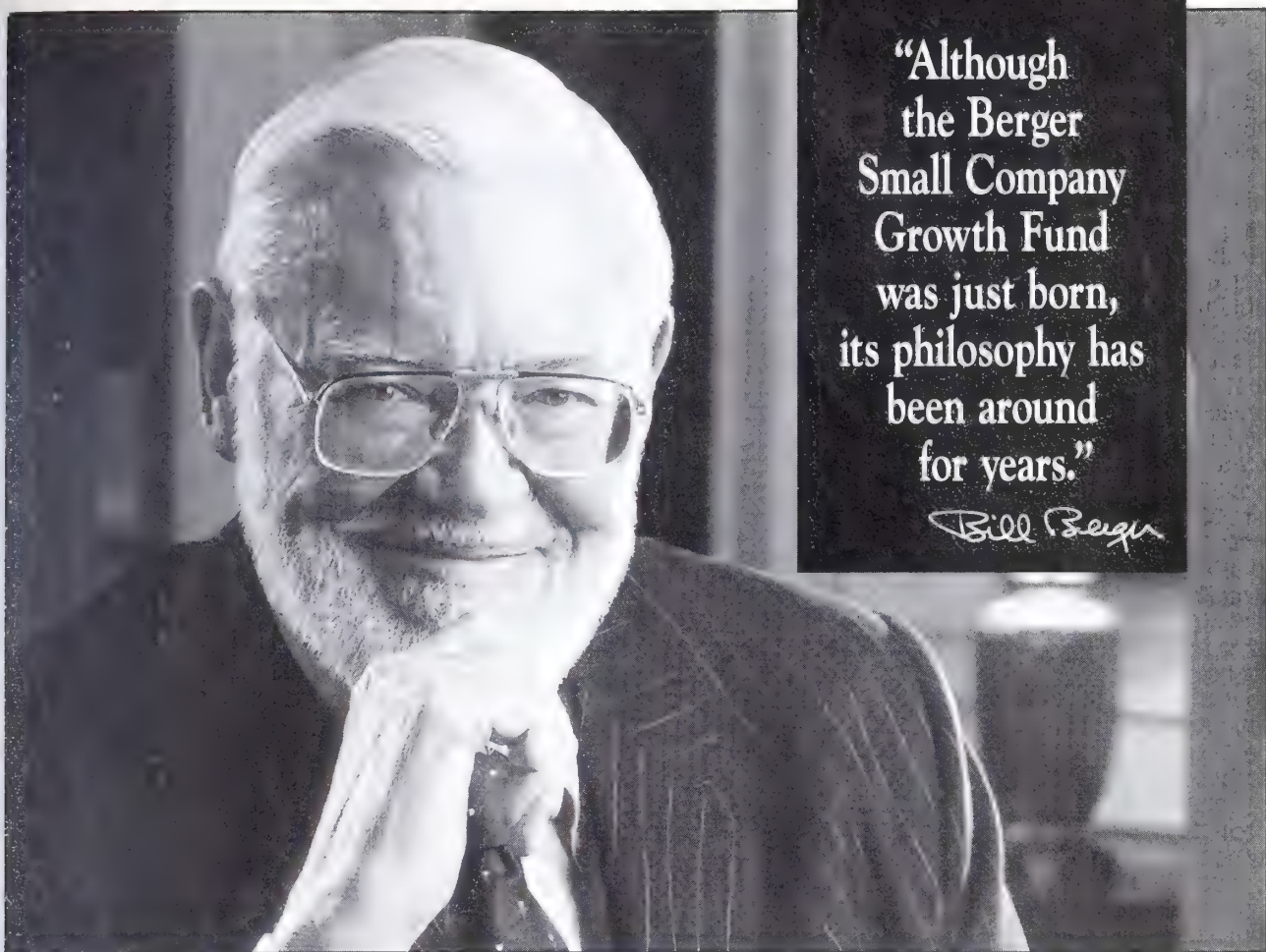
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# CORPORATE SCOREBOARD

| COMPANY                                   | SALES                    |                    |                       |                    | PROFITS                  |                    |                       |                    | MARGINS            |                    |       |    | RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30 | PRICE-EARNINGS RATIO 7-22 | MONTHS EARNINGS PAID FOR SHARE |
|-------------------------------------------|--------------------------|--------------------|-----------------------|--------------------|--------------------------|--------------------|-----------------------|--------------------|--------------------|--------------------|-------|----|-----------------------------------------------|---------------------------|--------------------------------|
|                                           | 2ND QUARTER 1994 \$ MIL. | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL. | CHANGE FROM 1993 % | 2ND QUARTER 1994 \$ MIL. | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL. | CHANGE FROM 1993 % | 2ND QUARTER 1994 % | 2ND QUARTER 1993 % |       |    |                                               |                           |                                |
| <b>(b) PAPER</b>                          |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |    |                                               |                           |                                |
| GROUP COMPOSITE                           | 16503.9                  | 4                  | 31946.1               | 2                  | 522.6                    | 3                  | 893.3                 | -5                 | 3.2                | 3.2                | -3.7  | 46 | -0.1                                          |                           |                                |
| Bowater                                   | 320.1                    | -3                 | 629.0                 | -7                 | -14.9                    | NM                 | -36.3                 | NM                 | NM                 | NM                 | -10.1 | NM | -1                                            |                           |                                |
| Champion International                    | 1242.0                   | -1                 | 2468.1                | -2                 | -31.1                    | NM                 | -62.1                 | NM                 | NM                 | NM                 | -6.1  | NM | -1                                            |                           |                                |
| Chesapeake                                | 236.9                    | 0                  | 448.9                 | 1                  | 5.6                      | 331                | 8.3                   | NM                 | 2.4                | 0.6                | 5.0   | 34 | 0                                             |                           |                                |
| Consolidated Papers                       | 233.9                    | -10                | 466.0                 | -7                 | 23.3                     | -9                 | 38.6                  | -10                | 10.0               | 9.8                | 6.3   | 34 | 1                                             |                           |                                |
| Fort Howard                               | 315.3                    | 4                  | 590.6                 | 1                  | -2.0                     | NM                 | -17.2                 | NM                 | NM                 | NM                 | NM    | NA | 1                                             |                           |                                |
| International Paper                       | 3600.0                   | 3                  | 7000.0                | 1                  | 87.0                     | 13                 | 159.0                 | 13                 | 2.4                | 2.2                | 4.9   | 29 | 2                                             |                           |                                |
| James River Corp. of Virginia             | 1198.1                   | 0                  | 2303.6                | 0                  | 12.9                     | -6                 | 5.8                   | 61                 | 1.1                | 1.1                | -2.1  | NM | -0                                            |                           |                                |
| Kimberly-Clark                            | 1830.1                   | 6                  | 3606.6                | 5                  | 151.5                    | 14                 | 287.7                 | 11                 | 8.3                | 7.7                | 21.6  | 17 | 3                                             |                           |                                |
| Manville                                  | 636.5                    | 8                  | 1167.7                | 7                  | 20.7                     | -25                | 28.0                  | -51                | 3.2                | 4.7                | 1.0   | NM | 0                                             |                           |                                |
| Mead                                      | 1317.2                   | 4                  | 2472.8                | 3                  | 52.4                     | 11                 | 80.0                  | 10                 | 4.0                | 3.7                | 8.1   | 20 | 2                                             |                           |                                |
| Pottlatch                                 | 345.1                    | 6                  | 710.4                 | 3                  | 6.1                      | 119                | 11.4                  | -54                | 1.8                | 0.8                | 2.7   | 47 | 0                                             |                           |                                |
| Scott Paper                               | 1176.7                   | -2                 | 2277.1                | -3                 | 40.2                     | 71                 | 65.4                  | 39                 | 3.4                | 2.0                | -17.0 | NM | -3                                            |                           |                                |
| Union Camp                                | 827.2                    | 5                  | 1617.3                | 4                  | 25.9                     | 72                 | 37.2                  | 35                 | 3.1                | 1.9                | 3.3   | 56 | 0                                             |                           |                                |
| Westvaco (2)                              | 626.4                    | 8                  | 1203.7                | 6                  | 16.3                     | -16                | 32.1                  | -20                | 2.6                | 3.4                | 2.6   | 47 | 0                                             |                           |                                |
| Weyerhaeuser                              | 2598.4                   | 9                  | 4984.2                | 5                  | 128.9                    | -29                | 255.4                 | -29                | 5.0                | 7.6                | 10.5  | 20 | 2                                             |                           |                                |
| <b>20 PUBLISHING &amp; BROADCASTING</b>   |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |    |                                               |                           |                                |
| INDUSTRY COMPOSITE                        | 11503.0                  | 8                  | 22401.1               | 9                  | 1091.3                   | 34                 | 1657.0                | 26                 | 9.5                | 7.6                | 14.4  | 27 | 1                                             |                           |                                |
| <b>(a) BROADCASTING</b>                   |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |    |                                               |                           |                                |
| GROUP COMPOSITE                           | 2775.3                   | 6                  | 5699.8                | 16                 | 346.6                    | 16                 | 557.8                 | 25                 | 12.5               | 11.5               | 20.6  | 19 | 3                                             |                           |                                |
| Capital Cities/ABC                        | 1538.1                   | 7                  | 2943.0                | 12                 | 189.5                    | 25                 | 305.6                 | 37                 | 12.3               | 10.6               | 14.9  | 22 | 3                                             |                           |                                |
| CBS                                       | 882.6                    | 6                  | 2129.5                | 24                 | 109.3                    | 2                  | 178.6                 | 11                 | 12.4               | 12.9               | 27.3  | 15 | 21                                            |                           |                                |
| Gaylord Entertainment                     | 195.4                    | 12                 | 321.6                 | 10                 | 28.4                     | 36                 | 36.9                  | 33                 | 14.5               | 12.0               | 24.0  | 27 | 0                                             |                           |                                |
| Multimedia                                | 159.2                    | 1                  | 305.7                 | 3                  | 19.4                     | 6                  | 36.8                  | 10                 | 12.2               | 11.6               | NM    | 13 | 2                                             |                           |                                |
| <b>(b) PUBLISHING</b>                     |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |    |                                               |                           |                                |
| GROUP COMPOSITE                           | 8727.7                   | 8                  | 16701.3               | 7                  | 744.6                    | 44                 | 1099.2                | 27                 | 8.5                | 6.4                | 12.4  | 31 | 1                                             |                           |                                |
| Dow Jones                                 | 524.2                    | 8                  | 1023.4                | 8                  | 46.0                     | 16                 | 89.2                  | 26                 | 8.8                | 8.2                | 10.9  | 19 | 1                                             |                           |                                |
| Dun & Bradstreet                          | 1184.7                   | 2                  | 2283.9                | 2                  | 144.6                    | 4                  | 253.3                 | 4                  | 12.2               | 11.9               | 39.6  | 23 | 2                                             |                           |                                |
| Gannett                                   | 966.9                    | 3                  | 1843.5                | 3                  | 131.8                    | 16                 | 210.5                 | 17                 | 13.6               | 12.1               | 22.0  | 17 | 2                                             |                           |                                |
| Knight-Ridder                             | 661.6                    | 6                  | 1292.4                | 7                  | 50.1                     | 18                 | 80.5                  | 23                 | 7.6                | 6.8                | 13.2  | 18 | 2                                             |                           |                                |
| McGraw-Hill                               | 648.3                    | 32                 | 1208.1                | 26                 | 48.0                     | 11                 | 63.0                  | 8                  | 7.4                | 8.8                | 1.9   | NM | 0                                             |                           |                                |
| Media General                             | 154.6                    | 1                  | 304.0                 | 2                  | 92.9                     | NM                 | 96.8                  | 738                | 60.1               | 5.3                | 49.6  | 7  | 4                                             |                           |                                |
| New York Times                            | 635.5                    | 31                 | 1225.0                | 31                 | 34.3                     | 53                 | 52.0                  | 56                 | 5.4                | 4.6                | 1.6   | NM | 0                                             |                           |                                |
| Scholastic (7)                            | 191.2                    | 17                 | 341.5                 | 16                 | 10.7                     | 3                  | 17.1                  | 2                  | 5.6                | 6.4                | 16.9  | 21 | 2                                             |                           |                                |
| Scripps (E. W.)                           | 307.6                    | 0                  | 593.4                 | 0                  | 47.8                     | 117                | 72.9                  | 33                 | 15.5               | 7.2                | 16.9  | 15 | 1                                             |                           |                                |
| Time Warner †                             | 1667.0                   | 6                  | 3225.0                | 5                  | -20.0                    | NM                 | -71.0                 | NM                 | NM                 | NM                 | -14.1 | NM | -0                                            |                           |                                |
| Times Mirror                              | 807.6                    | 3                  | 1541.3                | 0                  | 32.1                     | 57                 | 39.6                  | 24                 | 4.0                | 2.6                | 7.2   | 23 | 1                                             |                           |                                |
| Tribune                                   | 573.7                    | 11                 | 1056.6                | 11                 | 85.0                     | 37                 | 125.1                 | 36                 | 14.8               | 12.0               | 19.5  | 18 | 3                                             |                           |                                |
| Washington Post                           | 404.8                    | 7                  | 763.3                 | 3                  | 41.3                     | 9                  | 70.1                  | 5                  | 10.2               | 10.1               | 14.3  | 18 | 13                                            |                           |                                |
| <b>21 SERVICE INDUSTRIES</b>              |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |    |                                               |                           |                                |
| INDUSTRY COMPOSITE                        | 22383.6                  | 11                 | 43093.1               | 11                 | 907.0                    | 4                  | 1668.8                | 10                 | 4.1                | 4.3                | 10.6  | 27 | 0.6                                           |                           |                                |
| <b>(a) CONSTRUCTION &amp; ENGINEERING</b> |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |    |                                               |                           |                                |
| GROUP COMPOSITE                           | 4506.4                   | -1                 | 8820.6                | 2                  | 55.3                     | -43                | 141.7                 | -20                | 1.2                | 2.1                | 12.7  | 22 | 1.4                                           |                           |                                |
| Apogee Enterprises (10)                   | 178.9                    | 20                 | 358.3                 | 20                 | 2.6                      | 183                | -0.4                  | NM                 | 1.5                | 0.6                | 4.4   | 37 | 0                                             |                           |                                |
| Butler Mfg.                               | 175.4                    | 21                 | 292.5                 | 14                 | 5.1                      | 112                | 3.7                   | 211                | 2.9                | 1.7                | 33.9  | 6  | 4                                             |                           |                                |
| EG&G                                      | 646.0                    | -2                 | 1322.5                | 1                  | 16.4                     | -22                | 30.8                  | -23                | 2.5                | 3.2                | 14.9  | 12 | 1                                             |                           |                                |
| Fluor (2)                                 | 2079.6                   | 4                  | 4137.3                | 9                  | 47.7                     | 14                 | 91.7                  | 18                 | 2.3                | 2.1                | 16.1  | 24 | 2                                             |                           |                                |
| Foster Wheeler                            | 571.2                    | -12                | 1040.9                | -16                | 16.7                     | 14                 | 32.1                  | 18                 | 2.9                | 2.3                | 14.9  | 23 | 1                                             |                           |                                |
| Jacobs Engineering Group (3)              | 263.8                    | -4                 | 536.4                 | -4                 | 7.3                      | 0                  | 14.6                  | 1                  | 2.8                | 2.7                | 15.2  | 18 | 1                                             |                           |                                |
| Morrison Knudsen                          | 591.4**                  | -10                | 1132.7                | -7                 | -40.5                    | NM                 | -30.8                 | NM                 | NM                 | 1.3                | -2.6  | NM | -0                                            |                           |                                |
| <b>(b) INDUSTRIAL DISTRIBUTION</b>        |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |       |    |                                               |                           |                                |
| GROUP COMPOSITE                           | 6215.1                   | 16                 | 12021.5               | 16                 | 228.6                    | 14                 | 449.9                 | 15                 | 3.7                | 3.8                | 14.5  | 19 | 1.6                                           |                           |                                |
| Airgas (9)                                | 159.5                    | 38                 | 306.0                 | 36                 | 6.8                      | 62                 | 13.2                  | 58                 | 4.3                | 3.6                | 14.6  | 39 | 0                                             |                           |                                |
| Anthem Electronics                        | 158.0                    | -2                 | 341.6                 | 13                 | 5.0                      | -21                | 10.8                  | -9                 | 3.1                | 3.9                | 8.0   | 15 | 1                                             |                           |                                |
| Arrow Electronics                         | 835.6                    | 43                 | 1656.4                | 46                 | 26.6                     | 39                 | 51.8                  | 40                 | 3.2                | 3.3                | 18.5  | 12 | 3                                             |                           |                                |
| Chemd                                     | 161.4                    | 27                 | 313.5                 | 27                 | 5.7                      | 17                 | 11.4                  | 27                 | 3.5                | 3.8                | 13.0  | 17 | 1                                             |                           |                                |
| Fisher Scientific International           | 269.7                    | 12                 | 510.1                 | 9                  | 10.1                     | 17                 | 16.7                  | 14                 | 3.7                | 3.6                | 18.5  | 15 | 2                                             |                           |                                |
| Genuine Parts                             | 1219.8                   | 10                 | 2381.9                | 11                 | 71.0                     | 8                  | 133.9                 | 10                 | 5.8                | 6.0                | 18.3  | 16 | 2                                             |                           |                                |
| Getty Petroleum (11)                      | 170.7                    | -18                | 357.3                 | -15                | 1.0                      | 5                  | 7.9                   | 2                  | 0.6                | 0.5                | 10.1  | 17 | 0                                             |                           |                                |
| Grainger (W. W.)                          | 768.6                    | 16                 | 1474.9                | 16                 | 42.3                     | 19                 | 83.9                  | 20                 | 5.5                | 5.4                | 16.8  | 21 | 3                                             |                           |                                |
| Hughes Supply (11)                        | 183.9                    | 24                 | 353.4                 | 24                 | 1.7                      | 139                | 3.7                   | 121                | 0.9                | 0.5                | 6.1   | 12 | 1                                             |                           |                                |
| Kaman                                     | 209.0**                  | 7                  | 406.9                 | 4                  | 4.6                      | -4                 | 8.8                   | 1                  | 2.2                | 2.5                | -18.1 | NM | -1                                            |                           |                                |
| Marshall Industries (7)                   | 224.5                    | 18                 | 422.1                 | 22                 | 9.2                      | 29                 | 17.0                  | 44                 | 4.1                | 3.8                | 14.5  | 12 | 1                                             |                           |                                |
| Pioneer-Standard Electronics (9)          | 183.8                    | 37                 | 343.0                 | 36                 | 6.0                      | 33                 | 11.5                  | 42                 | 3.2                | 3.3                | 20.6  | 13 | 2                                             |                           |                                |
| Premier Industrial (7)                    | 200.7                    | 9                  | 378.6                 | 7                  | 27.4                     | 9                  | 48.1                  | 7                  | 13.7               | 13.6               | 22.4  | 19 | 1                                             |                           |                                |
| Staples (11)                              | 397.5                    | 33                 | 725.9                 | 30                 | 3.3                      | 12                 | 16.8                  | 25                 | 0.8                | 1.0                | 9.0   | 35 | 0                                             |                           |                                |
| United Stationers (4)                     | 360.0                    | -2                 | 730.0                 | -2                 | 2.2                      | -54                | 6.1                   | -42                | 0.6                | 1.3                | 7.3   | 10 | 0                                             |                           |                                |
| Univar (10)                               | 503.3                    | 3                  | 913.4                 | 1                  | 1.5                      | -54                | 1.3                   | -66                | 0.3                | 0.7                | 1.9   | 58 | 0                                             |                           |                                |
| Wyle Laboratories                         | 209.1                    | 42                 | 406.3                 | 42                 | 4.3                      | 53                 | 7.1                   | -3                 | 2.1                | 1.9                | NA    | NA | NA                                            |                           |                                |

Footnotes on page 51



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# CORPORATE SCOREBOARD

| COMPANY                         | SALES                             |                             |                                |                             | PROFITS                           |                             |                                |                             | MARGINS                     |                             | RETURN ON<br>COMMON<br>EQUITY<br>12 MONTHS<br>ENDING<br>6-30 | PRICE-<br>EARNINGS<br>RATIO<br>7-22 | MO<br>EARN<br>PER<br>SH |
|---------------------------------|-----------------------------------|-----------------------------|--------------------------------|-----------------------------|-----------------------------------|-----------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------------------------------------------|-------------------------------------|-------------------------|
|                                 | 2ND<br>QUARTER<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL. | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>% | 2ND<br>QUARTER<br>1993<br>% |                                                              |                                     |                         |
| (c) POLLUTION CONTROL           |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |                                                              |                                     |                         |
| GROUP COMPOSITE                 | 4707.5                            | 15                          | 8885.2                         | 12                          | 322.2                             | 6                           | 570.6                          | -3                          | 6.8                         | 7.4                         | 5.2                                                          | 52                                  | 0.                      |
| Browning-Ferris Industries (3)  | 1160.6                            | 31                          | 2144.8                         | 25                          | 80.8                              | 96                          | 142.7                          | 55                          | 7.0                         | 4.6                         | 11.7                                                         | 23                                  | 1                       |
| Chemical Waste Management       | 583.4                             | 9                           | 1106.8                         | 8                           | 21.8                              | -4                          | 31.6                           | -28                         | 3.7                         | 4.2                         | -44.1                                                        | NM                                  | -1                      |
| Rust International              | 411.7                             | 8                           | 797.8                          | 9                           | 16.5                              | -22                         | 30.5                           | -19                         | 4.0                         | 5.5                         | 7.9                                                          | 14                                  | 0                       |
| WMX Technologies                | 2551.7                            | 11                          | 4835.8                         | 9                           | 203.1                             | -7                          | 365.7                          | -12                         | 8.0                         | 9.5                         | 9.6                                                          | 33                                  | 0                       |
| (d) PRINTING & ADVERTISING      |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |                                                              |                                     |                         |
| GROUP COMPOSITE                 | 2056.8                            | 9                           | 3965.8                         | 10                          | 133.3                             | 11                          | 201.1                          | 68                          | 6.5                         | 6.4                         | 15.3                                                         | 18                                  | 1.                      |
| ADVO (3)                        | 256.1                             | 9                           | 485.8                          | 8                           | 8.9                               | 6                           | 11.3                           | 8                           | 3.5                         | 3.6                         | 7.2                                                          | 72                                  | 0                       |
| Banta                           | 185.8                             | 12                          | 373.3                          | 14                          | 12.0                              | 14                          | 21.5                           | 15                          | 6.4                         | 6.3                         | 14.6                                                         | 15                                  | 2                       |
| Donnelley (R. R.) & Sons        | 1117.3                            | 12                          | 2188.2                         | 12                          | 58.3                              | 11                          | 101.1                          | 230                         | 5.2                         | 5.3                         | 13.3                                                         | 18                                  | 1                       |
| Interpublic Group               | 497.5**                           | 3                           | 918.5                          | 5                           | 54.1                              | 10                          | 67.1                           | 12                          | 10.9                        | 10.1                        | 24.1                                                         | 18                                  | 1                       |
| (e) OTHER SERVICES              |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |                                                              |                                     |                         |
| GROUP COMPOSITE                 | 4897.9                            | 13                          | 9400.1                         | 12                          | 167.4                             | 13                          | 305.6                          | 29                          | 3.4                         | 3.4                         | 11.3                                                         | 27                                  | 0.                      |
| ABM Industries (2)              | 215.9**                           | 14                          | 426.7                          | 14                          | 3.3                               | 24                          | 6.1                            | 22                          | 1.5                         | 1.4                         | 12.0                                                         | 13                                  | 1                       |
| Adia Services                   | 289.7                             | 33                          | 559.5                          | 31                          | 6.5                               | 42                          | 11.9                           | 46                          | 2.2                         | 2.1                         | 10.8                                                         | 19                                  | 1                       |
| CDI                             | 264.9                             | 13                          | 514.1                          | 14                          | 4.5                               | 184                         | 8.4                            | 240                         | 1.7                         | 0.7                         | 11.4                                                         | 20                                  | 0                       |
| Handleman (8)                   | 250.1                             | -1                          | 550.1                          | -6                          | 4.9                               | -54                         | 15.0                           | -40                         | 2.0                         | 4.2                         | 9.2                                                          | 12                                  | 0                       |
| InaCom                          | 408.6                             | 8                           | 807.9                          | 14                          | -7.9                              | NM                          | -5.3                           | NM                          | NM                          | 1.0                         | 11.2                                                         | 5                                   | 1                       |
| Manpower                        | 988.0                             | 27                          | 1799.4                         | 22                          | 17.1                              | NM                          | 23.4                           | NM                          | 1.7                         | NM                          | 3.7                                                          | NM                                  | 0                       |
| Mid Atlantic Medical Services   | 181.7                             | 13                          | 360.3                          | 12                          | 11.9                              | 281                         | 25.3                           | 203                         | 6.5                         | 1.9                         | 39.4                                                         | 23                                  | 1                       |
| PHH (8)                         | 533.9                             | 4                           | 1050.7                         | 5                           | 18.2                              | 9                           | 33.6                           | 8                           | 3.4                         | 3.2                         | 13.1                                                         | 11                                  | 3                       |
| Pinkerton's                     | 193.8                             | 17                          | 385.4                          | 17                          | 0.2                               | -90                         | 1.5                            | -48                         | 0.1                         | 1.0                         | 1.6                                                          | 75                                  | 0                       |
| Rollins                         | 171.9                             | 5                           | 308.3                          | 6                           | 21.1                              | 10                          | 28.0                           | 12                          | 12.3                        | 11.7                        | 29.1                                                         | 18                                  | 1                       |
| Safety-Kleen                    | 183.3                             | -3                          | 360.1                          | -3                          | 11.5                              | 9                           | 21.2                           | 11                          | 6.3                         | 5.5                         | -27.0                                                        | NM                                  | -1                      |
| Service Corp. International     | 262.9                             | 21                          | 524.1                          | 19                          | 30.2                              | 24                          | 67.6                           | 26                          | 11.5                        | 11.2                        | 12.8                                                         | 19                                  | 1                       |
| ServiceMaster                   | 791.5                             | 9                           | 1449.1                         | 10                          | 40.4                              | -35                         | 65.0                           | -22                         | 5.1                         | 8.5                         | 41.8                                                         | 15                                  | 1                       |
| Volt Information Sciences (2)   | 161.7                             | 21                          | 304.2                          | 18                          | 5.8                               | NM                          | 3.8                            | NM                          | 3.6                         | 0.1                         | 3.5                                                          | 28                                  | 0                       |
| 22 TELECOMMUNICATIONS           |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |                                                              |                                     |                         |
| INDUSTRY COMPOSITE              | 54358.6                           | 7                           | 106567.5                       | 7                           | 5575.4                            | 26                          | 10106.7                        | 24                          | 10.3                        | 8.7                         | 14.0                                                         | 23                                  | 1.                      |
| (a) EQUIPMENT & SERVICES        |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |                                                              |                                     |                         |
| GROUP COMPOSITE                 | 25980.9                           | 11                          | 50435.0                        | 9                           | 2313.6                            | 69                          | 3908.1                         | 58                          | 8.9                         | 5.8                         | 22.0                                                         | 21                                  | 2.                      |
| AirTouch Communications †       | 279.2                             | 8                           | 536.5                          | 8                           | 33.1                              | 165                         | 60.6                           | 494                         | 11.9                        | 4.8                         | 2.7                                                          | NM                                  | 0                       |
| AT&T                            | 17729.0                           | 9                           | 34289.0                        | 7                           | 1130.0                            | 12                          | 2224.0                         | 15                          | 6.4                         | 6.2                         | 28.8                                                         | 17                                  | 3                       |
| Comsat                          | 207.9                             | 12                          | 408.4                          | 7                           | 21.6                              | -7                          | 41.8                           | -4                          | 10.4                        | 12.4                        | 9.7                                                          | 15                                  | 1                       |
| DSC Communications              | 229.6                             | 36                          | 430.4                          | 33                          | 36.3                              | 99                          | 65.9                           | 123                         | 15.8                        | 10.8                        | 17.3                                                         | 23                                  | 1                       |
| LIN Broadcasting †              | 219.6                             | 28                          | 411.2                          | 28                          | 506.8                             | NM                          | 491.7                          | NM                          | NM                          | NM                          | NM                                                           | 14                                  | 8                       |
| McCaw Cellular Communications † | 682.7                             | 26                          | 1313.5                         | 29                          | 137.0                             | NM                          | 128.6                          | NM                          | 20.1                        | NM                          | -11.0                                                        | NM                                  | -0                      |
| MCI Communications              | 3309.0                            | 13                          | 6530.0                         | 14                          | 215.0                             | 21                          | 424.0                          | 23                          | 6.5                         | 6.1                         | 14.5                                                         | 20                                  | 1                       |
| Sprint                          | 3150.4                            | 12                          | 6183.6                         | 12                          | 219.6                             | 33                          | 447.0                          | 191                         | 7.0                         | 5.9                         | 19.1                                                         | 17                                  | 2                       |
| Telephone & Data Systems †      | 173.6                             | 26                          | 332.4                          | 29                          | 14.3                              | 60                          | 24.5                           | 56                          | 8.3                         | 6.5                         | 3.0                                                          | 49                                  | 0                       |
| (b) TELEPHONE COMPANIES         |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |                                                              |                                     |                         |
| GROUP COMPOSITE                 | 28377.6                           | 4                           | 56132.5                        | 4                           | 3261.8                            | 7                           | 6198.5                         | 10                          | 11.5                        | 11.2                        | 10.7                                                         | 25                                  | 1.                      |
| Alltel                          | 734.6                             | 29                          | 1444.0                         | 29                          | 76.2                              | 19                          | 148.1                          | 17                          | 10.4                        | 11.2                        | 18.1                                                         | 17                                  | 1                       |
| Ameritech                       | 3146.4                            | 7                           | 6136.8                         | 7                           | 446.6                             | 15                          | 490.4                          | -29                         | 14.2                        | 13.2                        | 17.0                                                         | 16                                  | 2                       |
| Bell Atlantic                   | 3394.1                            | 5                           | 6767.3                         | 6                           | 415.4                             | 8                           | 811.3                          | 7                           | 12.2                        | 12.0                        | 18.4                                                         | 16                                  | 3                       |
| BellSouth                       | 4127.9                            | 6                           | 8252.2                         | 7                           | 516.5                             | 19                          | 1101.8                         | 31                          | 12.5                        | 11.1                        | 9.3                                                          | 23                                  | 2                       |
| Cincinnati Bell                 | 299.8                             | 14                          | 591.9                          | 13                          | 18.7                              | 39                          | 34.4                           | 0                           | 6.2                         | 5.1                         | -11.0                                                        | NM                                  | -0                      |
| GTE                             | 4955.0                            | 1                           | 9701.0                         | 0                           | 595.0                             | 36                          | 1099.0                         | 22                          | 12.0                        | 8.9                         | 12.2                                                         | 26                                  | 1                       |
| Nynex                           | 3311.6                            | -2                          | 6584.9                         | -1                          | 74.7                              | -78                         | 365.3                          | -46                         | 2.3                         | 10.1                        | -6.8                                                         | NM                                  | -1                      |
| Pacific Telesis Group           | 2256.0                            | -3                          | 4550.0                         | -1                          | 278.0                             | -2                          | 560.0                          | 94                          | 12.3                        | 12.2                        | 9.1                                                          | 28                                  | 1                       |
| Rochester Telephone             | 251.8                             | 13                          | 493.6                          | 14                          | 34.9                              | 76                          | 57.3                           | 51                          | 13.9                        | 8.9                         | 13.3                                                         | 16                                  | 1                       |
| Southern New England Telecomms. | 427.8**                           | 4                           | 851.0                          | 5                           | 45.3                              | 11                          | 88.8                           | 15                          | 10.6                        | 10.0                        | -3.7                                                         | NM                                  | -0                      |
| Southwestern Bell               | 2764.6                            | 9                           | 5410.8                         | 8                           | 385.5                             | 14                          | 743.2                          | 16                          | 13.9                        | 13.3                        | 19.7                                                         | 17                                  | 2                       |
| US West                         | 2708.0                            | 7                           | 5349.0                         | 6                           | 375.0                             | 29                          | 699.0                          | 19                          | 13.8                        | 11.5                        | 9.2                                                          | 31                                  | 1                       |
| 23 TRANSPORTATION               |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |                                                              |                                     |                         |
| INDUSTRY COMPOSITE              | 37193.6                           | 5                           | 72309.6                        | 5                           | 1148.7                            | NM                          | 1627.1                         | 2052                        | 3.1                         | NM                          | 6.9                                                          | 31                                  | 1.                      |
| (a) AIRLINES                    |                                   |                             |                                |                             |                                   |                             |                                |                             |                             |                             |                                                              |                                     |                         |
| GROUP COMPOSITE                 | 17680.2                           | 4                           | 34043.6                        | 3                           | 82.7                              | NM                          | -272.4                         | NM                          | 0.5                         | NM                          | -14.1                                                        | NM                                  | -2.                     |
| Alaska Air Group                | 330.5                             | 19                          | 610.9                          | 16                          | 9.7                               | NM                          | 3.4                            | NM                          | 2.9                         | NM                          | -5.5                                                         | NM                                  | -0                      |
| America West Airlines           | 363.4                             | 12                          | 708.6                          | 10                          | 20.1                              | 96                          | 35.3                           | 185                         | 5.5                         | 3.2                         | NM                                                           | 1                                   | 2                       |
| AMR                             | 4101.0                            | 0                           | 7909.0                         | 0                           | 153.0                             | 226                         | 146.0                          | 484                         | 3.7                         | 1.1                         | -1.3                                                         | NM                                  | -0                      |
| Continental Airlines            | 1390.5                            | -4                          | 2747.0                         | -3                          | -49.0                             | NM                          | -120.5                         | NM                          | NM                          | NM                          | -21.6                                                        | NA                                  | NA                      |
| Delta Air Lines (6)             | 3179.2                            | 2                           | 6122.2                         | 1                           | -249.8                            | NM                          | -327.7                         | NM                          | NM                          | 0.2                         | -30.8                                                        | NM                                  | -10                     |
| Northwest Airlines (6)          | 2273.0                            | 9                           | 4403.0                         | 7                           | 71.3                              | NM                          | 89.6                           | NM                          | 3.1                         | NM                          | NA                                                           | 8                                   | 2                       |
| Southwest Airlines              | 661.1                             | 16                          | 1280.5                         | 20                          | 58.5                              | 39                          | 100.4                          | 50                          | 8.9                         | 7.4                         | 17.1                                                         | 22                                  | 1                       |
| UAL                             | 3502.0                            | 6                           | 6697.0                         | 5                           | 55.0                              | 139                         | -16.0                          | NM                          | 1.6                         | 0.7                         | 2.9                                                          | 81                                  | 1                       |
| USAir Group                     | 1879.6                            | 4                           | 3565.5                         | 1                           | 13.8                              | 137                         | -182.8                         | NM                          | 0.7                         | 0.3                         | NM                                                           | NM                                  | -9                      |



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# CORPORATE SCOREBOARD

| COMPANY                                       | SALES                    |                    |                       |                    | PROFITS                  |                    |                       |                    | MARGINS            |                    |             |           | RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30 | PRICE-EARNINGS RATIO 7-22 | 1 MONTH EARNINGS PER SHARE |
|-----------------------------------------------|--------------------------|--------------------|-----------------------|--------------------|--------------------------|--------------------|-----------------------|--------------------|--------------------|--------------------|-------------|-----------|-----------------------------------------------|---------------------------|----------------------------|
|                                               | 2ND QUARTER 1994 \$ MIL. | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL. | CHANGE FROM 1993 % | 2ND QUARTER 1994 \$ MIL. | CHANGE FROM 1993 % | 6 MONTHS 1994 \$ MIL. | CHANGE FROM 1993 % | 2ND QUARTER 1994 % | 2ND QUARTER 1993 % |             |           |                                               |                           |                            |
| <b>(b) RAILROADS</b>                          |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |             |           |                                               |                           |                            |
| <b>GROUP COMPOSITE</b>                        | <b>9622.6</b>            | <b>7</b>           | <b>18703.7</b>        | <b>6</b>           | <b>897.0</b>             | <b>21</b>          | <b>1578.4</b>         | <b>20</b>          | <b>9.3</b>         | <b>8.3</b>         | <b>13.1</b> | <b>17</b> | <b>2.0</b>                                    |                           |                            |
| Burlington Northern                           | 1192.0                   | 4                  | 2402.0                | 4                  | 82.0                     | 14                 | 169.0                 | 10                 | 6.9                | 6.3                | 17.7        | 16        | 3.0                                           |                           |                            |
| Conrail                                       | 951.0                    | 9                  | 1798.0                | 6                  | 101.0                    | 19                 | 69.0                  | -47                | 10.6               | 9.7                | 5.7         | 27        | 1.0                                           |                           |                            |
| CSX                                           | 2371.0                   | 5                  | 4598.0                | 5                  | 162.0                    | 5                  | 236.0                 | 63                 | 6.8                | 6.8                | 13.3        | 17        | 4.0                                           |                           |                            |
| Illinois Central                              | 145.2                    | 10                 | 292.7                 | 7                  | 24.8                     | 25                 | 52.5                  | 20                 | 17.1               | 15.1               | 24.3        | 13        | 2.0                                           |                           |                            |
| Kansas City Southern Industries               | 267.2**                  | 15                 | 532.3                 | 19                 | 31.8                     | 48                 | 59.4                  | 36                 | 11.9               | 9.3                | 19.0        | 16        | 2.0                                           |                           |                            |
| Norfolk Southern                              | 1161.4**                 | -1                 | 2238.2                | -2                 | 178.5                    | 15                 | 323.4                 | 10                 | 15.4               | 13.3               | 12.4        | 15        | 4.0                                           |                           |                            |
| Santa Fe Pacific                              | 658.2                    | 8                  | 1289.7                | 8                  | 48.4                     | 72                 | 102.6                 | -24                | 7.4                | 4.6                | 12.4        | 23        | 0.0                                           |                           |                            |
| Southern Pacific Rail                         | 806.6                    | 8                  | 1554.8                | 9                  | 48.5                     | 364                | 63.5                  | NM                 | 6.0                | 1.4                | 1.6         | NM        | -0.0                                          |                           |                            |
| Union Pacific                                 | 2070.0                   | 12                 | 3998.0                | 9                  | 220.0                    | 11                 | 503.0                 | 39                 | 10.6               | 10.7               | 16.6        | 14        | 4.0                                           |                           |                            |
| <b>(c) TRANSPORTATION SERVICES</b>            |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |             |           |                                               |                           |                            |
| <b>GROUP COMPOSITE</b>                        | <b>4970.2</b>            | <b>11</b>          | <b>9495.0</b>         | <b>10</b>          | <b>184.1</b>             | <b>NM</b>          | <b>282.7</b>          | <b>360</b>         | <b>3.7</b>         | <b>NM</b>          | <b>10.9</b> | <b>17</b> | <b>2.0</b>                                    |                           |                            |
| Airborne Freight                              | 484.5                    | 15                 | 951.1                 | 16                 | 13.1                     | 108                | 20.1                  | 103                | 2.7                | 1.5                | 12.0        | 13        | 2.0                                           |                           |                            |
| Aviall                                        | 215.9                    | -6                 | 411.5                 | -7                 | 1.1                      | NM                 | 2.4                   | NM                 | 0.5                | NM                 | 3.7         | NA        | 1.0                                           |                           |                            |
| Federal Express (7)                           | 2264.8                   | 11                 | 4342.2                | 9                  | 80.7                     | 45                 | 111.8                 | 74                 | 3.6                | 2.7                | 11.1        | 19        | 3.0                                           |                           |                            |
| GATX                                          | 284.4**                  | -2                 | 545.1                 | 4                  | 20.9                     | -20                | 41.1                  | -8                 | 7.3                | 9.1                | 9.3         | 14        | 2.0                                           |                           |                            |
| Ryder System                                  | 1176.3                   | 9                  | 2248.2                | 8                  | 49.8                     | 22                 | 73.6                  | 21                 | 4.2                | 3.8                | 12.7        | 16        | 1.0                                           |                           |                            |
| Trinity Industries (9)                        | 544.3                    | 35                 | 997.0                 | 26                 | 18.5                     | 10                 | 33.7                  | 7                  | 3.4                | 4.2                | 12.3        | 18        | 1.0                                           |                           |                            |
| <b>(d) TRUCKING &amp; SHIPPING</b>            |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |             |           |                                               |                           |                            |
| <b>GROUP COMPOSITE</b>                        | <b>4920.6</b>            | <b>3</b>           | <b>10067.3</b>        | <b>9</b>           | <b>-15.1</b>             | <b>NM</b>          | <b>38.4</b>           | <b>-78</b>         | <b>NM</b>          | <b>2.3</b>         | <b>6.7</b>  | <b>27</b> | <b>0.0</b>                                    |                           |                            |
| Alexander & Baldwin                           | 291.1**                  | 37                 | 545.6                 | 37                 | 20.9                     | 21                 | 37.8                  | 7                  | 7.2                | 8.2                | 11.2        | 17        | 1.0                                           |                           |                            |
| American President                            | 653.6**                  | 12                 | 1356.7                | 12                 | 19.0                     | -11                | 29.2                  | -13                | 2.9                | 3.6                | 14.2        | 9         | 2.0                                           |                           |                            |
| Arkansas Best                                 | 210.8                    | -14                | 475.7                 | 0                  | -3.4                     | NM                 | 2.2                   | -67                | NM                 | 1.8                | 5.9         | 21        | 0.0                                           |                           |                            |
| Carolina Freight                              | 263.2                    | 34                 | 455.8                 | 19                 | 9.6                      | NM                 | 6.7                   | NM                 | 3.7                | NM                 | 3.0         | 18        | 0.0                                           |                           |                            |
| Consolidated Freightways                      | 1059.8                   | 4                  | 2163.0                | 7                  | 5.2                      | -38                | 20.5                  | 23                 | 0.5                | 0.8                | 7.1         | 23        | 0.0                                           |                           |                            |
| Greyhound Lines                               | 151.1                    | -9                 | 284.9                 | -10                | -45.4                    | NM                 | -61.4                 | NM                 | NM                 | 3.4                | -59.5       | NM        | -3.0                                          |                           |                            |
| Hunt (J. B.) Transport Services               | 297.7                    | 14                 | 562.4                 | 11                 | 11.6                     | -14                | 17.3                  | -6                 | 3.9                | 5.2                | 10.6        | 19        | 0.0                                           |                           |                            |
| Landstar System                               | 250.2                    | 27                 | 457.3                 | 24                 | 6.6                      | 63                 | 9.9                   | 141                | 2.6                | 2.1                | 23.0        | 20        | 1.0                                           |                           |                            |
| Roadway Services                              | 930.2                    | -1                 | 1953.9                | 9                  | -21.7                    | NM                 | -5.8                  | NM                 | NM                 | 2.9                | 6.5         | 37        | 1.0                                           |                           |                            |
| TNT Freightways                               | 220.8                    | 0                  | 471.5                 | 10                 | 4.4                      | -47                | 10.3                  | -16                | 2.0                | 3.8                | 14.3        | 20        | 1.0                                           |                           |                            |
| Yellow                                        | 592.2                    | -19                | 1340.4                | 0                  | -21.9                    | NM                 | -28.3                 | NM                 | NM                 | NM                 | -1.2        | NM        | -0.0                                          |                           |                            |
| <b>24 UTILITIES &amp; POWER</b>               |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |             |           |                                               |                           |                            |
| <b>INDUSTRY COMPOSITE</b>                     | <b>42801.8</b>           | <b>4</b>           | <b>91158.3</b>        | <b>5</b>           | <b>3500.2</b>            | <b>-4</b>          | <b>8354.2</b>         | <b>-1</b>          | <b>8.2</b>         | <b>8.9</b>         | <b>9.5</b>  | <b>14</b> | <b>1.0</b>                                    |                           |                            |
| <b>(a) ELECTRIC, WATER &amp; COGENERATION</b> |                          |                    |                       |                    |                          |                    |                       |                    |                    |                    |             |           |                                               |                           |                            |
| <b>GROUP COMPOSITE</b>                        | <b>37046.9</b>           | <b>4</b>           | <b>77593.0</b>        | <b>5</b>           | <b>3179.7</b>            | <b>-4</b>          | <b>7409.5</b>         | <b>0</b>           | <b>8.6</b>         | <b>9.3</b>         | <b>9.3</b>  | <b>14</b> | <b>1.0</b>                                    |                           |                            |
| Allegheny Power System                        | 569.3                    | 3                  | 1273.6                | 9                  | 47.4                     | -3                 | 130.5                 | 8                  | 8.3                | 8.8                | 11.3        | 11        | 1.0                                           |                           |                            |
| American Electric Power                       | 1349.0                   | 11                 | 2837.2                | 12                 | 117.0                    | 16                 | 283.1                 | 14                 | 8.7                | 8.3                | 9.3         | 14        | 2.0                                           |                           |                            |
| Atlantic Energy                               | 205.8                    | 7                  | 437.9                 | 11                 | 21.1                     | 37                 | 48.3                  | 21                 | 10.3               | 8.0                | 12.3        | 10        | 1.0                                           |                           |                            |
| Baltimore Gas & Electric                      | 630.4                    | 12                 | 1378.6                | 10                 | 66.7                     | 19                 | 148.9                 | 22                 | 10.6               | 9.9                | 11.2        | 11        | 2.0                                           |                           |                            |
| Carolina Power & Light                        | 687.3                    | 2                  | 1431.8                | 4                  | 58.2                     | -17                | 147.0                 | -10                | 8.5                | 10.4               | 12.0        | 12        | 2.0                                           |                           |                            |
| Centerior Energy                              | 596.0                    | 1                  | 1183.6                | 0                  | 58.7                     | 17                 | 110.3                 | 9                  | 9.8                | 8.5                | -52.8       | NM        | -6.0                                          |                           |                            |
| Central & South West                          | 908.0                    | 2                  | 1758.0                | 3                  | 107.0                    | 11                 | 155.0                 | 9                  | 11.8               | 10.7               | 9.5         | 15        | 1.0                                           |                           |                            |
| Cincinnati Gas & Electric                     | 391.2                    | 6                  | 953.8                 | 11                 | 39.5                     | -1                 | 115.7                 | 7                  | 10.1               | 10.9               | -1.7        | NM        | -0.0                                          |                           |                            |
| Cipco                                         | 202.5                    | 7                  | 428.1                 | 7                  | 20.4                     | 49                 | 35.0                  | 12                 | 10.1               | 7.2                | 14.2        | 10        | 2.0                                           |                           |                            |
| CMS Energy                                    | 796.0                    | 7                  | 1938.0                | 8                  | 33.0                     | 22                 | 114.0                 | 12                 | 4.1                | 3.6                | 16.0        | 11        | 1.0                                           |                           |                            |
| Commonwealth Edison                           | 1432.2                   | 0                  | 2956.9                | 1                  | -7.9                     | NM                 | 43.7                  | -69                | NM                 | 5.3                | -1.1        | NM        | -0.0                                          |                           |                            |
| Consolidated Edison Co. of N. Y.              | 1392.1                   | 0                  | 3089.8                | 4                  | 87.2                     | 40                 | 276.5                 | 28                 | 6.3                | 4.5                | 13.3        | 10        | 2.0                                           |                           |                            |
| Destec Energy                                 | 181.1                    | 14                 | 358.1                 | 26                 | 28.2                     | 22                 | 48.8                  | 5                  | 15.6               | 14.6               | 15.6        | 5         | 1.0                                           |                           |                            |
| Detroit Edison                                | 872.7                    | 5                  | 1772.3                | 4                  | 87.3                     | -15                | 200.2                 | -16                | 10.0               | 12.3               | 13.7        | 8         | 3.0                                           |                           |                            |
| Dominion Resources                            | 1109.7                   | 10                 | 2276.7                | 8                  | 146.2                    | 29                 | 297.6                 | 20                 | 13.2               | 11.3               | 12.6        | 11        | 3.0                                           |                           |                            |
| DPL                                           | 261.8                    | 8                  | 637.0                 | 8                  | 37.0                     | 11                 | 94.5                  | 6                  | 14.1               | 13.8               | 12.9        | 14        | 1.0                                           |                           |                            |
| DQE                                           | 305.0                    | 4                  | 623.1                 | 7                  | 34.6                     | -2                 | 73.5                  | 6                  | 11.4               | 12.1               | 11.8        | 11        | 2.0                                           |                           |                            |
| Duke Power                                    | 1032.0                   | 5                  | 2087.2                | 5                  | 128.0                    | 5                  | 301.6                 | 14                 | 12.4               | 12.4               | 13.9        | 12        | 2.0                                           |                           |                            |
| Florida Progress                              | 681.5                    | 23                 | 1310.8                | 25                 | 55.4                     | 20                 | 93.7                  | 12                 | 8.1                | 8.4                | 11.4        | 12        | 2.0                                           |                           |                            |
| FPL Group                                     | 1443.0                   | 7                  | 2621.9                | 6                  | 135.8                    | 12                 | 240.1                 | 7                  | 9.4                | 9.0                | 10.9        | 13        | 2.0                                           |                           |                            |
| General Public Utilities                      | 873.5                    | 1                  | 1810.7                | 4                  | -119.8                   | NM                 | 8.6                   | -94                | NM                 | 7.8                | 5.7         | 19        | 1.0                                           |                           |                            |
| Hawaiian Electric Industries                  | 284.6                    | 1                  | 549.6                 | -2                 | 19.4                     | -6                 | 33.0                  | 5                  | 6.8                | 7.3                | 9.7         | 14        | 2.0                                           |                           |                            |
| IES Industries                                | 171.1                    | 0                  | 382.7                 | 0                  | 11.1                     | -7                 | 26.5                  | 1                  | 6.5                | 7.0                | 11.8        | 11        | 2.0                                           |                           |                            |
| Illinova                                      | 349.6                    | 0                  | 792.5                 | 6                  | 35.5                     | 21                 | 68.7                  | 20                 | 10.2               | 8.4                | -5.1        | NM        | -0.0                                          |                           |                            |
| Ipalco Enterprises                            | 161.1                    | 5                  | 342.3                 | 6                  | 16.9                     | -2                 | 48.1                  | 0                  | 10.5               | 11.3               | 9.5         | 15        | 2.0                                           |                           |                            |
| Kansas City Power & Light                     | 223.1                    | 7                  | 422.4                 | 6                  | 24.8                     | -4                 | 34.7                  | -17                | 11.1               | 12.4               | 11.2        | 13        | 1.0                                           |                           |                            |
| KU Energy                                     | 154.0                    | 10                 | 320.5                 | 9                  | 15.0                     | -12                | 40.7                  | -2                 | 9.7                | 12.2               | 12.9        | 12        | 2.0                                           |                           |                            |
| Midwest Resources                             | 248.0                    | 0                  | 590.6                 | 2                  | 9.9                      | 6                  | 39.6                  | 9                  | 4.0                | 3.8                | 11.8        | 10        | 1.0                                           |                           |                            |
| New England Electric System                   | 517.1                    | 0                  | 1094.0                | 0                  | 35.8                     | 64                 | 107.2                 | 37                 | 6.9                | 4.2                | 14.1        | 10        | 3.0                                           |                           |                            |
| New York State Electric & Gas                 | 388.6                    | 0                  | 953.8                 | 5                  | 12.4                     | -42                | 97.1                  | 2                  | 3.2                | 5.5                | 8.9         | 12        | 2.0                                           |                           |                            |
| Niagara Mohawk Power                          | 979.7                    | 5                  | 2215.3                | 7                  | 67.6                     | 3                  | 206.0                 | 7                  | 6.9                | 7.0                | 10.0        | 9         | 1.0                                           |                           |                            |
| NipSCO Industries                             | 348.0                    | 0                  | 913.6                 | 5                  | 24.0                     | -1                 | 91.7                  | 7                  | 6.9                | 6.9                | 14.2        | 12        | 2.0                                           |                           |                            |
| Northeast Utilities                           | 854.6                    | 0                  | 1820.8                | 0                  | 71.7                     | 168                | 178.2                 | 79                 | 8.4                | 3.1                | 12.2        | 10        | 2.0                                           |                           |                            |
| Ohio Edison                                   | 585.4                    | 4                  | 1186.7                | 3                  | 75.4                     | -1                 | 144.7                 | 0                  | 12.9               | 13.5               | 0.1         | NM        | 0.0                                           |                           |                            |
| Orange & Rockland Utilities                   | 229.7                    | 7                  | 522.4                 | 9                  | 3.4                      | -49                | 17.4                  | -20                | 1.5                | 3.1                | 9.8         | 11        | 2.0                                           |                           |                            |
| Pacific Gas & Electric                        | 2439.7                   | -1                 | 4954.0                | 1                  | 241.4                    | -2                 | 478.3                 | -5                 | 9.9                | 10.0               | 11.6        | 10        | 2.0                                           |                           |                            |
| PECO Energy                                   | 951.6                    | 6                  | 2080.0                | 5                  | 116.0                    | 8                  | 275.4                 | 2                  | 12.2               | 11.9               | 12.7        | 10        | 2.0                                           |                           |                            |

Footnotes on page 51

# CORPORATE SCOREBOARD

| COMPANY                                 | SALES                            |                             |                               |                             | PROFITS                          |                             |                               |                             | MARGINS                     |                             | RETURN ON COMMON EQUITY<br>12 MONTHS<br>ENDING<br>6-30 | PRICE-<br>EARNINGS<br>RATIO<br>7-22 | 12<br>MONTHS'<br>EARNINGS<br>PER<br>SHARE |
|-----------------------------------------|----------------------------------|-----------------------------|-------------------------------|-----------------------------|----------------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------------------------------------|-------------------------------------|-------------------------------------------|
|                                         | 2ND<br>QUARTER<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 6<br>MONTHS<br>1994<br>\$ MIL | CHANGE<br>FROM<br>1993<br>% | 2ND<br>QUARTER<br>1994<br>% | 2ND<br>QUARTER<br>1993<br>% |                                                        |                                     |                                           |
| <b>Pennsylvania Power &amp; Light</b>   | 640.2                            | 3                           | 1409.7                        | 5                           | 54.0                             | -23                         | 167.7                         | -10                         | 8.4                         | 11.3                        | 12.2                                                   | 10                                  | 1.98                                      |
| <b>Public Service Co. of New Jersey</b> | 433.0                            | 5                           | 807.6                         | 2                           | 56.2                             | 21                          | 85.3                          | 4                           | 13.0                        | 11.3                        | 10.5                                                   | 9                                   | 1.99                                      |
| <b>Public Service Co. of Colorado</b>   | 202.1                            | 5                           | 480.1                         | 2                           | 20.5                             | 25                          | 62.6                          | 12                          | 10.1                        | 8.5                         | 11.6                                                   | 9                                   | 1.98                                      |
| <b>Public Service Co. of New Mexico</b> | 477.6                            | 7                           | 1090.0                        | 3                           | 23.9                             | 17                          | 70.4                          | -11                         | 5.0                         | 4.6                         | 11.2                                                   | 12                                  | 2.25                                      |
| <b>Public Service Co. of New Mexico</b> | 204.3                            | 7                           | 465.1                         | 6                           | 19.2                             | 241                         | 43.4                          | 146                         | 9.4                         | 3.0                         | -7.4                                                   | NM                                  | -1.02                                     |
| <b>Public Service Enterprise Group</b>  | 1278.4                           | 3                           | 3072.8                        | 8                           | 140.2                            | 8                           | 380.6                         | 9                           | 11.0                        | 10.4                        | 12.1                                                   | 10                                  | 2.56                                      |
| <b>Public Service of New Jersey</b>     | 263.6                            | 11                          | 592.8                         | 6                           | 17.8                             | -32                         | 64.3                          | -21                         | -6.7                        | 11.0                        | 8.9                                                    | 11                                  | 1.68                                      |
| <b>Public Service of New Jersey</b>     | 217.1                            | 7                           | 527.1                         | 11                          | 9.6                              | 39                          | 43.8                          | 22                          | 4.4                         | 3.4                         | 10.6                                                   | 11                                  | 2.16                                      |
| <b>San Diego Gas &amp; Electric</b>     | 463.0                            | -1                          | 967.4                         | 1                           | -33.2                            | NM                          | 26.6                          | -74                         | NM                          | 9.5                         | 8.8                                                    | 17                                  | 1.15                                      |
| <b>San Diego Gas &amp; Electric</b>     | 296.0                            | 6                           | 643.4                         | 7                           | 30.7                             | 8                           | 82.4                          | 10                          | 10.4                        | 10.2                        | 12.9                                                   | 12                                  | 3.76                                      |
| <b>San Diego Gas &amp; Electric</b>     | 1858.5                           | 5                           | 3587.3                        | 1                           | 151.8                            | 0                           | 294.2                         | -5                          | 8.2                         | 8.6                         | 10.5                                                   | 9                                   | 1.39                                      |
| <b>San Diego Gas &amp; Electric</b>     | 2069.0                           | 0                           | 4001.4                        | 2                           | 277.3                            | 1                           | 440.3                         | -7                          | 13.4                        | 13.2                        | 12.5                                                   | 13                                  | 1.51                                      |
| <b>Southwestern Public Service (4)</b>  | 196.2                            | 2                           | 385.6                         | 3                           | 19.8                             | -11                         | 37.2                          | -16                         | 10.1                        | 11.5                        | 13.9                                                   | 11                                  | 2.32                                      |
| <b>Southwestern Public Service (4)</b>  | 353.3                            | 12                          | 659.9                         | 11                          | 42.8                             | 9                           | 77.3                          | 19                          | 12.1                        | 12.4                        | 15.7                                                   | 14                                  | 1.41                                      |
| <b>Southwestern Public Service (4)</b>  | 1430.3                           | 14                          | 2731.6                        | 14                          | 174.3                            | -9                          | 269.1                         | -28                         | 12.2                        | 15.3                        | 4.5                                                    | 27                                  | 1.18                                      |
| <b>Southwestern Public Service (4)</b>  | 180.7                            | 15                          | 336.1                         | 11                          | 4.4                              | NM                          | -10.1                         | NM                          | 2.5                         | NM                          | NM                                                     | NM                                  | -0.03                                     |
| <b>Southwestern Public Service (4)</b>  | 532.9                            | 4                           | 971.8                         | 1                           | 97.4                             | 12                          | 135.6                         | 3                           | 18.3                        | 17.0                        | 13.2                                                   | 12                                  | 2.82                                      |
| <b>Southwestern Public Service (4)</b>  | 153.4                            | 2                           | 321.0                         | 3                           | 6.4                              | -38                         | 19.6                          | -14                         | 4.2                         | 6.9                         | 7.8                                                    | 14                                  | 2.35                                      |
| <b>Southwestern Public Service (4)</b>  | 147.2                            | 16                          | 338.0                         | -1                          | 15.7                             | 0                           | 42.4                          | -18                         | 10.7                        | 12.4                        | 10.0                                                   | 12                                  | 1.23                                      |
| <b>Southwestern Public Service (4)</b>  | 341.1                            | -15                         | 879.5                         | -10                         | 30.2                             | -2                          | 96.4                          | 13                          | 8.9                         | 7.7                         | 12.0                                                   | 10                                  | 2.86                                      |
| <b>Southwestern Public Service (4)</b>  | 321.7                            | 15                          | 603.0                         | 15                          | 48.6                             | -2                          | 88.8                          | 7                           | 15.1                        | 17.8                        | 12.6                                                   | 19                                  | 0.89                                      |
| <b>Southwestern Public Service (4)</b>  | 181.3                            | 4                           | 415.5                         | 9                           | 10.9                             | 33                          | 38.1                          | 32                          | 6.0                         | 4.7                         | 12.0                                                   | 12                                  | 2.38                                      |
| <b>Oil &amp; Transmission</b>           | <b>5754.9</b>                    | <b>2</b>                    | <b>13565.2</b>                | <b>7</b>                    | <b>320.5</b>                     | <b>-6</b>                   | <b>944.7</b>                  | <b>-7</b>                   | <b>5.6</b>                  | <b>6.0</b>                  | <b>11.1</b>                                            | <b>19</b>                           | <b>1.56</b>                               |
| <b>Oil &amp; Transmission</b>           | 210.8                            | -4                          | 432.8                         | 0                           | 24.0                             | 16                          | 45.1                          | -12                         | 11.4                        | 9.4                         | 11.9                                                   | 15                                  | 2.30                                      |
| <b>Oil &amp; Transmission</b>           | 1897.8                           | 0                           | 4347.5                        | 15                          | 75.6                             | 24                          | 248.7                         | 20                          | 4.0                         | 3.2                         | 13.6                                                   | 22                                  | 1.48                                      |
| <b>Oil &amp; Transmission</b>           | 316.1                            | 52                          | 755.7                         | 58                          | 6.1                              | -31                         | 42.4                          | 7                           | 1.9                         | 4.3                         | 10.2                                                   | 15                                  | 2.23                                      |
| <b>Oil &amp; Transmission</b>           | 272.6                            | -6                          | 929.3                         | 9                           | 3.7                              | 73                          | 73.0                          | 29                          | 1.3                         | 0.7                         | 16.7                                                   | 13                                  | 3.03                                      |
| <b>Oil &amp; Transmission</b>           | 267.6                            | -4                          | 1047.9                        | 10                          | 15.9                             | -5                          | 67.2                          | 7                           | 5.9                         | 6.0                         | 15.6                                                   | 12                                  | 2.09                                      |
| <b>Oil &amp; Transmission</b>           | 190.5                            | 2                           | 485.9                         | -3                          | 5.7                              | 107                         | 32.1                          | -6                          | 3.0                         | 1.5                         | 9.9                                                    | 13                                  | 1.42                                      |
| <b>Oil &amp; Transmission</b>           | 464.7                            | -19                         | 982.0                         | -17                         | 48.9                             | 42                          | 107.7                         | 4                           | 10.5                        | 6.0                         | 8.9                                                    | 16                                  | 1.27                                      |
| <b>Oil &amp; Transmission</b>           | 204.8                            | 0                           | 437.9                         | 7                           | 23.0                             | 2                           | 50.7                          | 2                           | 11.2                        | 11.0                        | 11.8                                                   | 15                                  | 1.47                                      |
| <b>Oil &amp; Transmission</b>           | 415.0                            | 16                          | 894.5                         | 5                           | 34.5                             | -73                         | 84.2                          | -57                         | 8.3                         | 35.3                        | 11.1                                                   | 19                                  | 1.77                                      |
| <b>Oil &amp; Transmission</b>           | 695.0                            | 2                           | 1529.1                        | 5                           | 8.2                              | 1                           | 37.7                          | 21                          | 1.2                         | 1.2                         | -12.9                                                  | NM                                  | -1.36                                     |
| <b>Oil &amp; Transmission</b>           | 186.1                            | -2                          | 506.7                         | 9                           | 1.0                              | 74                          | 29.2                          | 19                          | 0.5                         | 0.3                         | 11.5                                                   | 14                                  | 2.05                                      |
| <b>Oil &amp; Transmission</b>           | 633.9                            | 17                          | 1215.9                        | -6                          | 74.0                             | 105                         | 126.8                         | -22                         | 11.7                        | 6.7                         | 11.3                                                   | 17                                  | 1.80                                      |

## ALPHABETICAL LIST OF COMPANIES

Number following each company name identifies the Scoreboard category under which it is listed

|                                    |                               |                                  |                               |                                |                                 |                                     |
|------------------------------------|-------------------------------|----------------------------------|-------------------------------|--------------------------------|---------------------------------|-------------------------------------|
| American Brands <b>6e</b>          | Asarco <b>16c</b>             | Becton, Dickinson <b>12d</b>     | <b>C</b>                      | Cincinnati G&E <b>24a</b>      | Cons. Freightways <b>23d</b>    | Destec Energy <b>24a</b>            |
| American Cyanamid <b>12b</b>       | Ashland Coal <b>11a</b>       | Bell & Howell <b>18a</b>         | Cabletron Systems <b>18c</b>  | Cincinnati Milacron <b>15b</b> | Consolidated Papers <b>19b</b>  | Detroit Diesel <b>2b</b>            |
| American Electric <b>24a</b>       | Ashland Oil <b>11a</b>        | Bell Atlantic <b>22b</b>         | Caesars World <b>14c</b>      | Ciprico <b>24a</b>             | Consolidated Stores <b>8</b>    | Detroit Edison <b>24a</b>           |
| American Express <b>17a</b>        | AST Research <b>18b</b>       | BellSouth <b>22b</b>             | Caldor <b>8</b>               | Circuit City Stores <b>6b</b>  | Continental Airlines <b>23a</b> | Dexter <b>4</b>                     |
| American General <b>17b</b>        | AT&T <b>22a</b>               | Bemis <b>7b</b>                  | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | Continental Bank <b>3b</b>      | Diagnostek <b>12a</b>               |
| American Greetings <b>14d</b>      | AT&T Capital <b>17a</b>       | Beneficial <b>17a</b>            | Campbell Soup <b>10b</b>      | Circuit City Stores <b>6b</b>  | Cooper Industries <b>9a</b>     | Dial <b>5</b>                       |
| American Home <b>12b</b>           | Atlantic Energy <b>24a</b>    | Bergen Brunswig <b>12a</b>       | Canandaigua Wine <b>6c</b>    | Circuit City Stores <b>6b</b>  | Cooper Tire & Rubber <b>2c</b>  | Diamond Shamrock <b>11a</b>         |
| American Intl. Group <b>17b</b>    | Atlantic Richfield <b>11a</b> | Best Buy <b>6b</b>               | Central Cities/ABC <b>20a</b> | Circuit City Stores <b>6b</b>  | Coors (Adolph) <b>6c</b>        | Diebold <b>18a</b>                  |
| American Maize-Products <b>10b</b> | AutoZone <b>8</b>             | Bethlehem Steel <b>16b</b>       | Cardinal Health <b>12a</b>    | Circuit City Stores <b>6b</b>  | CoreStates Financial <b>3a</b>  | Digital Equipment <b>18b</b>        |
| American Medical <b>12c</b>        | Avery Dennison <b>15a</b>     | Beverly Enterprises <b>12c</b>   | Caremark Int'l. <b>12c</b>    | Circuit City Stores <b>6b</b>  | Corning <b>15a</b>              | Dillard <b>8</b>                    |
| American National <b>17b</b>       | Aviall <b>23c</b>             | Big B <b>12a</b>                 | Carlisle <b>15a</b>           | Circuit City Stores <b>6b</b>  | CPC International <b>10b</b>    | Disney (Walt) <b>14b</b>            |
| American President <b>23d</b>      | Avon Products <b>6d</b>       | Bindley Western Inds. <b>12a</b> | Carnival <b>14d</b>           | Circuit City Stores <b>6b</b>  | Cracker Barrel <b>14a</b>       | Dole Food <b>10b</b>                |
| American Stores <b>10c</b>         |                               | Black & Decker <b>15b</b>        | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | Crane <b>15a</b>                | Dollar General <b>8</b>             |
| Ameritech <b>22b</b>               |                               | Block (H&R) <b>17a</b>           | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | Crawford <b>17a</b>             | Dominion Resources <b>24a</b>       |
| Ames Dept. Stores <b>8</b>         |                               | Blockbuster Ent. <b>14b</b>      | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | Cray Research <b>18b</b>        | Donaldson <b>2b</b>                 |
| Ametek <b>9a</b>                   |                               | Blount <b>15b</b>                | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | Crestar Financial <b>3c</b>     | Donnelley (R.R.) <b>21d</b>         |
| Amgen <b>12b</b>                   |                               | Boatmen's Bancshares <b>3b</b>   | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | Crompton & Knowles <b>4</b>     | Dover <b>15c</b>                    |
| Amoco <b>11a</b>                   |                               | Bob Evans Farms <b>14a</b>       | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | Crown Cork & Seal <b>7a</b>     | Dow Chemical <b>4</b>               |
| AMP <b>9d</b>                      |                               | Boeing <b>1</b>                  | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | CSX <b>23b</b>                  | Dow Jones <b>20b</b>                |
| Amphenol <b>9d</b>                 |                               | Boise Cascade <b>19a</b>         | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | CUC International <b>18a</b>    | DPL <b>24a</b>                      |
| AMR <b>23a</b>                     |                               | Borden <b>10b</b>                | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | Cummins Engine <b>2b</b>        | DQE <b>24a</b>                      |
| Analog Devices <b>9d</b>           |                               | Borg-Warner Automotive <b>2b</b> | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  | Cyprus Amax Minerals <b>16c</b> | Dr Pepper/Seven-Up <b>6c</b>        |
| Anheuser-Busch <b>6c</b>           |                               | Bowater <b>19b</b>               | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 | Dresser Industries <b>15c</b>       |
| AnnTaylor Stores <b>8</b>          |                               | Bradlee's <b>8</b>               | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 | Dreyer's Grand Ice Cream <b>10b</b> |
| Anthem Electronics <b>21b</b>      |                               | Bristol-Myers Squibb <b>12b</b>  | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 | Drug Emporium <b>12a</b>            |
| Apogee Enterprises <b>21a</b>      |                               | Broadway Stores <b>8</b>         | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 | DSC Communs. <b>22a</b>             |
| Apple Computer <b>18b</b>          |                               | Brown Group <b>6a</b>            | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 | Duke Power <b>24a</b>               |
| Applied Materials <b>15c</b>       |                               | Brown-Forman <b>6c</b>           | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 | Dun & Bradstreet <b>20b</b>         |
| Arbor Drugs <b>12a</b>             |                               | Brunswick <b>14d</b>             | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 | DuPont <b>4</b>                     |
| Arco Chemical <b>4</b>             |                               | Burlington Northern <b>23b</b>   | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 |                                     |
| Arkansas Best <b>23d</b>           |                               | Burlington Resources <b>11a</b>  | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 |                                     |
| Armco <b>16b</b>                   |                               | Butler Mfg. <b>21a</b>           | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 |                                     |
| Armstrong World <b>6b</b>          |                               |                                  | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 |                                     |
| Arrow Electronics <b>21b</b>       |                               |                                  | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 |                                     |
| Arvin Industries <b>2b</b>         |                               |                                  | Carroll's <b>14c</b>          | Circuit City Stores <b>6b</b>  |                                 |                                     |

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## ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

Continued from p. 71

Eastman Kodak **14d**  
Eaton **2b**  
Echlin **2b**  
Eckerd **12a**  
Ecolab **6d**  
Edison Brothers **8**  
Edwards (A. G.) **17a**  
EG&G **21a**  
El Paso Natural Gas **24b**  
Electronic Data Systems **18c**  
EMC **18b**  
Engelhard **4**  
Enron **24b**  
Equifax **17a**  
Equitable Resources **24b**  
Ethyl **4**  
Excel Industries **2b**  
Exxon **11a**

### F

F&M Distributors **8**  
Family Dollar Stores **8**  
Fannie Mae **17a**  
Fay's **12a**  
Federal Express **23c**  
Federal Home Loan **17a**  
Federal Paper Board **7b**  
Federal Signal **15a**  
Federal-Mogul **2b**  
Federated Dept. Stores **8**  
Ferro **4**  
Fieldcrest Cannon **15d**  
Fifth Third Bancorp **3b**  
Fina **11a**  
Fingerhut **8**  
First American Finl. **17a**  
First Bank System **3b**  
First Chicago **3b**  
First Data **18c**  
First Fidelity **3a**  
First Financial Mgmt. **17a**  
First Interstate Bancorp **3d**  
First of America Bank **3b**  
First Union **3b**  
Firststar **3b**  
Fisher Scientific **21b**  
Fleet Financial Group **3a**  
Fleetwood Ent. **14d**  
Fleming **10a**  
Florida Progress **24a**  
Fluor **21a**  
FMC **15c**  
Food Lion **10c**  
Foodarama **10c**  
Ford Motor **2a**  
Fort Howard **19b**  
Foster Wheeler **21a**  
Foundation Health **12c**  
FoxMeyer **12a**  
FPL Group **24a**  
Franklin Resources **17a**  
Freeport-McMoran **16c**  
Freeport-McMoran C&G **16c**  
Fremont General **17b**  
Freter **6b**  
Fruit of the Loom **6a**  
Fuller (H. B.) **4**

### G

Gannett **20b**  
Gap **8**  
Gateway 2000 **18b**  
GATX **23c**  
Gaylord Container **7b**  
Gaylord Ent. **20a**  
GenCorp **1**  
Genetech **12b**  
General Dynamics **1**  
General Electric **5**  
General Host **5**  
General Instrument **9b**  
General Mills **10b**  
General Motors **2a**  
General Nutrition **10c**

General Public Uts. **24a**  
General Signal **15c**  
Genovese Drug Stores **12a**  
Genuine Parts **21b**  
Geon **4**  
Georgia Gulf **4**  
Georgia-Pacific **19a**  
Gerber Products **10b**  
Getty Petroleum **21b**  
Giant Food **10c**  
Gillette **6d**  
Glendale Federal Bank **17c**  
GM Hughes Electronics **9b**  
Golden West **17c**  
Good Guys **6b**  
Goodrich (B. F.) **4**  
Goodyear Tire & Rubber **2c**  
Goulds Pumps **15c**  
Graess (W. R.) **4**  
Grainger (W. W.) **21b**  
Great A&P **10c**  
Great Lakes Chemical **4**  
Great Western **17c**  
Greyhound Lines **23d**  
GTE **22b**  
Gtech Holdings **18c**  
Guilford Mill **15d**

### H

Halliburton **11b**  
Handelman **21e**  
Hanna (M. A.) **4**  
Hannaford Brothers **10c**  
Harcourt General **5**  
Harley-Davidson **14d**  
Harnischfeger **15c**  
Hartford Steam **17b**  
Hartmarx **6a**  
Hasbro **14d**  
Hawaiian Electric **24a**  
Health Care & Retirement **12c**  
HealthSouth Rehabilitation **12c**  
HealthTrust **12c**  
Hechinger **8**  
Heilig-Meyers **6b**  
Heinz (H. J.) **10b**  
Helene Curtis Industries **6d**  
Hershey Foods **10b**  
Hewlett-Packard **18b**  
Hillenbrand **15a**  
Hillhaven **12c**  
Hills Stores **8**  
Hilton Hotels **14c**  
Home Depot **8**  
Home Shopping **8**  
Homestake Mining **16c**  
HON Industries **18a**  
Honeywell **9c**  
Horace Mann **17b**  
Hormel Foods **10b**  
Hubbell **9a**  
Hudson Foods **10b**  
Huffy **14d**  
Hughes Supply **21b**  
Humana **12c**  
Hunt (J. B.) **23d**

### I

IBM **18b**  
IBP **10b**  
IES Industries **24a**  
Illinois Central **23b**  
Illinois Tool Works **15a**  
Illinova **24a**  
Imco Industries **15c**  
InaCom **21e**  
Ingersoll-Rand **15c**  
Inland Steel **16b**  
Insilco **9d**  
Integra Financial **3a**  
Intel **9d**  
Intelligent Electronics **18a**  
Interface **15d**  
Intergraph **18b**  
Interlake **15c**

International Game Tech. **15a**  
International Paper **19b**  
Interpublic Group **21d**  
Interstate Bakenes **10b**  
Intl. Multifoods **10a**  
Ipacal Enterprises **24a**  
ITI **5**  
IVAX **12b**

### J

Jacobs Engineering **21a**  
James River **19b**  
Jefferson Smurfit **7b**  
Jefferson-Pilot **17b**  
John Alden Finl. **17b**  
Johnson & Johnson **12d**  
Johnson Controls **9c**

### K

Kaiser Aluminum **16a**  
Kaman **21b**  
Kansas City Power & Light **24a**  
Kansas City Southern **23b**  
Kaufman & Broad **13b**  
Kelllogg **10b**  
Kellwood **6a**  
Kemper **17b**  
Kendall Intl. **12d**  
Kerr-McGee **11a**  
KeyCorp **3b**  
Kimberly-Clark **19b**  
Kmart **8**  
Knight-Ridder **20b**  
Kohl's **8**  
Kroger **10c**  
KU Energy **24a**

### L

La-Z-Boy Chair **6b**  
Ladd Furniture **6b**  
Lafarge **13a**  
Lands' End **8**  
Landstar System **23d**  
Lear Seating **15a**  
Leggett & Platt **6b**  
Lehman Brothers Holdings **17a**  
Lennor **13b**  
Levitz Furniture **6b**  
Lilly (Eli) **12b**  
Limited **8**  
LIN Broadcasting **22a**  
Lincoln National **17b**  
Lifton Industries **9b**  
Liz Claiborne **6a**  
Lockheed **1**  
Locite **4**  
Longs Drug Stores **12a**  
Longview Fibre **7b**  
Loral **9b**  
Lotus Development **18c**  
Louisiana Land **11a**  
Louisiana-Pacific **19a**  
Lowe's **8**  
LSI Logic **9d**  
LTV **16b**  
Lubrizol **4**  
Lukens **16b**  
Lyondell **4**

### M

Macy (R. H.) **8**  
Magma Copper **12c**  
Manor Car **12c**  
Manpower **21e**  
Manville **19b**  
Marion Merrell Dow **12b**  
Mark IV Industries **15a**  
Marriott Intl. **14a**  
Marsh & McLennan **17a**  
Marshall Industries **21b**  
Martin Marietta **1**  
Masco **6b**  
Mattel **14d**  
Maxtor **18b**

Maxus Energy **11a**  
Maxxim **16a**  
May Department Stores **8**  
Maytag **6b**  
McCaw Cellular **22a**  
McCormick **10b**  
McDonald's **14a**  
McDonnell Douglas **1**  
McGraw-Hill **20b**  
MCI Communications **22a**  
McKesson **12a**  
MCN **24b**  
M. D. C. Holdings **13b**  
Mead **19b**  
Media General **20b**  
Medtronic **12d**  
Mellon Bank **3a**  
Melville **8**  
Mercantile Bancorp. **3b**  
Mercantile Stores **8**  
Merck **12b**  
Merrill Lynch **17a**  
Metropolitan Financial **17c**  
Meyer (Fred) **8**  
MGM Grand **14c**  
Michaels Stores **8**  
Micro Warehouse **8**  
MicroAge **18a**  
Micron Technology **9d**  
Midwest **18c**  
Mid Atlantic Medical **21e**  
Midlantic **3a**  
Midwest Resources **24a**  
Miller (Herman) **18a**  
Minnesota Mining **15a**  
Mirage Resorts **14c**  
Mitchell Energy **11a**  
Mobil **11a**  
Modine Mfg. **2b**  
Mohawk Industries **15d**  
Monsanto **4**  
Morgan (J. P.) **3a**  
Morgan Stanley **17a**  
Morrison Knudsen **21a**  
Morrison Restaurants **14a**  
Motorola **9b**  
Multimedia **20a**  
Murphy Oil **11a**  
Musicland Stores **14d**

### N

Nacco Industries **15b**  
Nash Finl. **10a**  
National City **3b**  
National Gypsum **13a**  
National Health Labs. **12c**  
National InterGroup **5**  
National Medical **12c**  
National Semicond. **9d**  
National Service **9a**  
NationsBank **3c**  
Navistar International **2a**  
NBD Bancorp. **3b**  
NCH **6d**  
Neiman Marcus Group **8**  
New England Electric **24a**  
New York State E&G **24a**  
New York Times **20b**  
Newell **15a**  
Niagara Mohawk **24a**  
Nicox **24b**  
Nike **6a**  
Nine West Group **6a**  
Nipco Industries **24a**  
NL Industries **4**  
Nordstrom **8**  
Norfolk Southern **23b**  
Northeast Utilities **24a**  
Northern Trust **3b**  
Northrop Grumman **1**  
Northwest Airlines **23a**  
Northwestern Steel & Wire **16b**  
Norwest **3b**  
Novell **18c**  
Nucor **16b**

NWNL **17b**  
Nynex **22b**

### O

Occidental Pet. **11a**  
Office Depot **8**  
Ohio Edison **24a**  
Olin **4**  
Oneok **24b**  
Oracle Systems **18c**  
Orange & Rockland Uts. **24a**  
Oregon Steel Mills **16b**  
OrNda HealthCorp **12c**  
Oshkosh Truck **2a**  
Outboard Marine **14d**  
Owens & Minor **12d**  
Owens-Corning **13a**  
Owens-Illinois **7a**  
Oxford Health Plans **12c**  
Oxford Industries **6a**

### P

Paccar **2a**  
Pacific G&E **24a**  
Pacific Telesis Group **22b**  
PaineWebber Group **17a**  
Pall **5**  
Panhandle Eastern **24b**  
Paragon Trade Brands **7b**  
Paul Revere **17b**  
Payless Cashways **8**  
PECO Energy **24a**  
Penn Traffic **10c**  
Penny (J. C.) **8**  
Pennsylvania Power **24a**  
Pennzoil **11a**  
Pentair **15c**  
Pep Boys **8**  
PepsiCo **6c**  
Perry Drug Stores **12a**  
Petrie Stores **8**  
Pfizer **12b**  
Phelps Dodge **16c**  
PHH **21e**  
Philip Morris **6c**  
Phillips Petroleum **11a**  
Phillips-Van Heusen **6a**  
Piedmont Natural Gas **24b**  
Pier 1 Imports **6b**  
Pilgrim's Pride **10b**  
Pinkerton's **21e**  
Pinnacle West **24a**  
Pioneer Hi-Bred **10b**  
Pioneer-Standard **21b**  
Pitney Bowes **18a**  
PNC Bank **3a**  
Polaroid **14d**  
Pope & Talbot **19a**  
Portland General **24a**  
Pottlatch **19b**  
PPG Industries **13c**  
Praxair **4**  
Premark Intl. **5**  
Premier Industrial **21b**  
Price/Costco **8**  
Progressive **17b**  
Promus **14c**  
Protective Life **17b**  
PS Co. of Colorado **24a**  
PS Co. of New Mexico **24a**  
Public Service Ent. **24a**  
Puget Sound Power **24a**  
Pulte **13b**

### Q

Quaker State **11a**  
Qualex **16b**  
Quantum **18b**  
QVC **8**

Raytheon **9b**  
Reebok International **6a**  
Regions Financial **3c**  
Reliance Electric **9a**  
Republic New York **3a**  
Revco D. S. **12a**  
Reynolds & Reynolds **18a**  
Reynolds Metals **16a**  
Richford Holdings **10a**  
Rite Aid **12a**  
Riverwood Intl. **7b**  
RJR Nabisco **6c**  
Roadway Services **23d**  
Rochester G&E **24a**  
Rochester Telephone **22b**  
Rock-Tenn **7b**  
Rockwell International **5**  
Rohm & Haas **4**  
Rohr **1**  
Rollins **21e**  
Rose's Stores **8**  
Ross Stores **8**  
Royal Caribbean Cruises **14d**  
RPM **13a**  
Rubbermaid **15a**  
Ruddick **10c**  
Russell **6a**  
Rust Intl. **21c**  
Ryder System **23c**  
Ryko-Sexton **10a**  
Ryland Group **13b**

### S

Safeco **17b**  
Safety-Kleen **21e**  
Safeway **10c**  
Sallie Mae **17a**  
Salomon **17a**  
San Diego G&E **24a**  
Santa Fe Pacific **23b**  
Scana **24a**  
SCORP **24a**  
Schenck-Plough **12b**  
Schlumberger **11b**  
Scholastic **20b**  
Schulman (A.) **4**  
Schwab (Charles) **17a**  
Scott Paper **19b**  
Scotts **4**  
Scripps (E. W.) **20b**  
Seagate Technology **18b**  
Sears, Roebuck **8**  
Service Corp. Intl. **21e**  
Service Merchandise **8**  
ServiceMaster **21e**  
Shaw Industries **15d**  
Shawmut National **3a**  
Sherwin-Williams **13a**  
Shoney's **14a**  
ShoPro Stores **8**  
Sigma-Aldrich **12b**  
Signet Banking **3c**  
Silicon Graphics **18b**  
Skyline **13b**  
Smart & Final **10b**  
Smith (A. O.) **2b**  
Smith International **11b**  
Smith's Food & Drug **10c**  
Smithfield Foods **10b**  
Snap-on **15b**  
Solextron **9d**  
Sonat **24b**  
Sonoco Products **7b**  
Southdown **13a**  
Southern **24a**  
Southern New Eng. Tel. **22b**  
Southern Pacific Rail **23b**  
Southland **10c**  
SouthTrust **3c**  
Southwest Airlines **23a**  
Southwestern Bell **22b**  
Southwestern PS **24a**  
Spiegel **8**  
Springs Industries **15d**  
Sprint **22a**

### T

Talbots **8**  
Tambbrands **6d**  
Tandem Computers **18b**  
Tandy **6b**  
Tech Data **18a**  
Teco Energy **24a**  
Tecomseh Products **13a**  
Tektronix **9c**  
Teledyne **5**  
Teleflex **1**  
Telephone & Data Sys. **22a**  
Temple-Inland **7b**  
Tenneco **5**  
Teradyne **9c**  
Terra Inds. **4**  
Texaco **11a**  
Texas Industries **13a**  
Texas Instruments **9d**  
Texas Utilities **24a**  
Tetronix **5**  
Thorn Apple Valley **10b**  
3M **15a**  
Time Warner **20b**  
Times Mirror **20b**  
TJ International **13a**  
TJX **8**  
TNT Freightways **23d**  
Torcharmk **17b**  
Toro **6b**  
Tosco **11a**  
Toys 'R' Us **8**  
Tracor **9c**  
Transamerica **17a**  
Transatlantic Holdings **17b**  
Transco Energy **24b**  
Travelers **17a**  
Tribune **15b**  
TriMas **20a**  
Trinity Industries **23c**  
Troviva **15a**  
TRW **5**  
Tucson Electric Power **24a**  
Tyco Toys **14d**

### U

U. S. Bancorp **3d**  
U. S. Healthcare **12c**  
U. S. Home **13b**  
U. S. Shoe **8**  
U. S. Surgical **12d**  
UAL **23a**  
Ultrasun **11a**  
Unifi **15d**  
Union Bank **3d**

SPX **15b**  
St. Paul **17b**  
Standard Federal Bank **17c**  
Standard Motor Prods. **2b**  
Standard Register **18a**  
Stanhome **6d**  
Stanley Works **15b**  
Staples **21b**  
State Street Boston **3a**  
Stewart & Stevenson **15c**  
Stone Container **7b**  
Stop & Shop **10c**  
Storage Technology **18b**  
Strawbridge & Clothier **8**  
Stride Rite **6a**  
Stryker **12d**  
Sun **11a**  
Sun Microsystems **18b**  
SunAmerica **17a**  
Sunbeam-Oster **6b**  
Sundstrand **1**  
SunTrust Banks **3c**  
Super Food Services **10a**  
Super Rite **10a**  
Supermarkets Gen. **10c**  
Supervalu **10a**  
Sybase **18c**  
SynOptics Communs. **18c**  
Syntax **12b**

### V

Valero Energy **11c**  
Valspar **13a**  
Value City **8**  
Value Health **12c**  
Varian Associates **1**  
Vario **15c**  
Venture Stores **8**  
VF **6a**  
Village Super Mar. **1**  
VLSI Technology **9**  
Volt Info. Sciences **10c**  
Vons **10c**  
Vulcan Materials **1**

### W

Wabaco **8**  
Wachovia **3c**  
Wal-Mart Stores **8**  
Walgreen **12a**  
Wamer-Lambert **1**  
Washington Post **2**  
Washington Water **1**  
Webb (Del.) **13b**  
Weirton Steel **16b**  
Weis Markets **10c**  
Wellman **4**  
WellPoint Health **1**  
Wells Fargo **3d**  
Western Atlas **11b**  
Western Digital **18**  
Western Resources **1**  
Westinghouse Elec **1**  
WestPoint Stevens **1**  
Westvaco **19b**  
Weyerhaeuser **19**  
Wheelabrator Tech **1**  
Whirlpool **6b**  
Whitman **5**  
WHX **16b**  
Wickes Lumber **8**  
Wico **24b**  
Willamette Industri **1**  
Williams **24b**  
Witco **4**  
WMX Technologies **1**  
Woolworth **8**  
Worthington Inds. **1**  
WPL Holdings **24c**  
Wyle Laboratories **1**

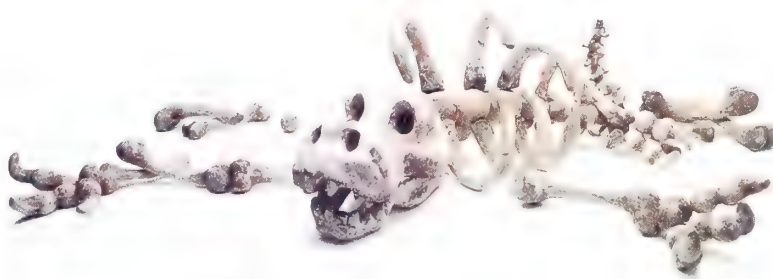
### XYZ

Xerox **18b**  
Yellow **23d**  
York Intl. **13a**  
Zenith Electronics **6**  
Zenith Natl. Ins. **17**

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# RED NECKS, WHITE SOCKS, AND BLUE-CHIP SPONSORS

## NASCAR is pushing stock-car racing beyond the Bubba barrier

**L**adies and gentlemen, start your six-packs," yells the front-page headline of the *Birmingham Post-Herald* for Friday, July 22. Early the next morning, the serious beer-guzzling has begun. Horns are honking, Confederate flags are flying, and a line of cars and pickups stretches four miles down Alabama's Route 77 toward Talladega Superspeedway, home of the Die-Hard 500 stock-car race.

billion by 1996. "The NASCAR guys are the brightest marketers I've known," says Steven M. Bornstein, ESPN Inc.'s chief executive. "They understand who they're trying to appeal to, and they've developed some of the brightest racing stars."

Now, NASCAR is stalking a more upscale bunch that is showing up

consumer good from a company that a NASCAR sponsor than from a competitor that is not, says a recent study by students at Wake Forest University.

Moreover, NASCAR fans respond more favorably to a company logo on the hood of a supercharged Ford than to one on a ballpark billboard. More than 70% of them would almost always or frequently buy a product involved in the sport, estimates Performance Research, a sports-marketing company in Newport, R.I. For Major League Baseball, the figure is 58%. It's 52% for tennis and 47% for golf, two sports with much higher brows. That 70% figure puts a gleam in every marketer's eye.

**FLUSH FANS.** And, boy, do they market NASCAR fans. At the Talladega Superspeedway gift shop, folks line up for a deep to buy souvenirs. T-shirts of Dale Elliott and Kyle Petty race out at \$24.95. Talladega sweatshirts are \$35, and models of defending Winston Cup champion Dale Earnhardt's black No. 3 Chevy are \$15. Merchandise sales, \$80 million six years ago, should hit \$600 million in 1994. Earnhardt just sold \$900,000 worth of garb and gewgaws in two hours at a home-shopping channel QVC.

What's so appealing about race drivers whose lineage can be traced back to moonshine runners? Marketing experts say NASCAR drivers are down-earth types, and fans can picture themselves driving the cars. "Unlike other athletes, these guys come across as good ol' boys just driving as fast as they can," says Gordon Kane, a vice-president of Clarion Performance Properties in Greenwich, Conn.

And as long as NASCAR keeps luring such loyal fans as Tony Buckner, its future looks as bright as a candy-apple red paint job. The 23-year-old plumber drove four hours from Knoxville, Tenn.,

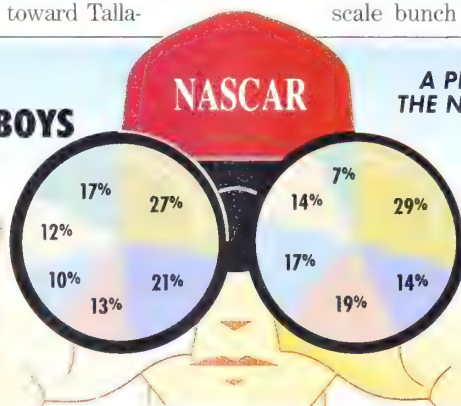
just to see his hero, Earnhardt, in action. Buckner spends at least \$250 a race, with \$85 going for tickets. The rest will be spent on a hotel room, food (most likely at a nearby McDonald's, which sponsors Die-Hard 500 winner Jimmy Spencer's Ford), and souvenirs. Today in Talladega, Buckner's idol will burn a piton on lap 80 and drive out of the race. NASCAR, however, won't be blowing its engine any time soon.

By Chris Roush in Talladega, Ala.

## NOT JES' GOOD OL' BOYS

**OCCUPATION**

- PROFESSIONAL/MANAGERIAL
- TECHNICAL/SALES
- CRAFTSPERSON
- UNSKILLED LABOR
- UNEMPLOYED/RETIRED
- OTHER



degade Superspeedway, home of the Die-Hard 500 stock-car race.

This is NASCAR, and these are 100,000 of its fans. Most are wearing gimme caps and T-shirts bearing the likenesses of favorite drivers or of local hero Davey Allison, a second-generation stock-jock from nearby Hueytown, Ala., killed last year in a helicopter crash. "These people are a little different breed," says Tony Black, a 38-year-old Birmingham firefighter. "They're groupies. People get in fistfights about these races."

That's the rockin' redneck image many Americans have long had of the National Association for Stock Car Auto Racing. But that picture is about to change. On Aug. 6, 400,000 fans will crowd into the Indianapolis Motor Speedway to watch the Brickyard 400—the first race other than the Indianapolis 500 to be run on the fabled track. The purse: a record \$3.2 million.

**"BRIGHTEST MARKETERS."** Stock-car racing is on a flat-out roll these days. Event attendance is expected to top 3.4 million this year. Corporate sponsorships, which can cost as much as \$5 million, are at an all-time high. And sales of NASCAR-licensed merchandise could speed past \$1

at the track as the sport expands its geographic base. Races now are held as far north as New Hampshire and New York and as far west as California and Arizona. The strategy is working: Indy 500 fans, who earn slightly more than old-line NASCAR fans, were given first crack at Brickyard tickets. Speedway executives were blown away by the response—a sellout in three days.

Since 1970, Winston cigarettes has been the biggest NASCAR sponsor. This year, NASCAR approached companies with no prior identification—or clear product tie-ins—with auto racing about sponsorships. NASCAR's roster of sponsors now includes the likes of Canon, Eastman Kodak, Gillette, and McDonald's.

It's easy to see why such big names are giving NASCAR the checkered flag. For one thing, stock-car fans make a lot of money (chart) and are 64% more likely to buy a



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MAKE THE CONNECTION



## THE TWO REAL-LIFE DRAMAS AT CAP CITIES/ABC

Who will succeed CEO Tom Murphy? And what blockbuster deal might be in the works?

**T**om Murphy was playing to a tough crowd. The chairman of Capital Cities/ABC had been invited to speak at a media conference sponsored by investment bank Allen & Co. in Sun Valley, Idaho. But the talk of the meeting was Barry Diller, who had announced a dazzling merger of QVC and CBS, only to see it scuttled two days before Murphy's July 14 speech. How could Murphy possibly top that?

Simple. He told the group that Cap Cities planned to make a bid for General Electric Co. Because federal regulations would prohibit ABC from owning a second network, Murphy said he intended to spin off GE's subsidiary, NBC. And he was talking to Diller about selling it to him. The announcement was an elaborate joke, of course, designed to tickle this deal-crazed audience.

**PLENTY OF CASH.** Such a soft-shoe comes naturally to Thomas S. Murphy. But Murphy knows he can't deflect more sober questions about his company's future. The affable 69-year-old has been grappling with who should succeed him ever since his longtime partner, Daniel B. Burke, retired as CEO last February. With no clear choice, analysts and rivals believe Murphy will pursue a deal that would bring Cap Cities a new leader—much as CBS Chairman Laurence A. Tisch tried to do with Diller.

Now, though, Murphy is moving forcefully to quash such thinking. In an interview with *BUSINESS WEEK*, he insisted that Cap Cities won't have to go outside for his replacement. And he pledges to resolve the succession issue soon: "Just



**MURPHY WOULD LOVE A BIG DEAL. "WE ALWAYS THOUGHT WE WERE BETTER BUYERS THAN SELLERS"**

give us time." In fact, insiders say Murphy plans to elevate his top division manager, Robert A. Iger, to chief operating officer by the end of 1994. In effect, Iger will replace Burke in the duumvirate that rules Cap Cities.

Promoting Iger may not silence the whispering on Wall Street, though. As president of the ABC Television Network Group, Iger has won praise as a surefooted broadcaster. But some observers question whether he has the strategic breadth to steer Cap Cities through a roiling media landscape. In addition to ABC, Cap Cities owns cable networks such as ESPN; magazines such as *W* and *Los Angeles*; and eight daily

newspapers, including the *Kansas City Star* and the *Fort Worth Star-Telegram*. "Murphy is genuine about Iger," says one former executive. "But they still have a serious management problem."

Certainly, Iger is taking steps to get ready. The 43-year-old former programmer says he has worked hard to master the argot of Wall Street. He consults periodically with Warren E. Buffett, who is Cap Cities' largest single shareholder with a 13% stake. And he meets with other major shareholders. "I've got a lot of learning to do," Iger acknowledges. "That's what I'm doing."

If Iger doesn't learn fast enough, Murphy has plenty of alternatives. In the



of the near-merger of CBS, broadcast networks have become tempting partners in the media mating dance (ta-ABC is particularly attractive: The network is poised to overtake CBS as the prime-time ratings next season while its parent company is racking record profits. "Because they generate so much cash flow," says John S. Shearson, "there are many things they could do.")

Unfortunately for Iger, Cap Cities' much of its recent success to resurgence. Under his command, the network's prospects are better now than at any time since Cap Cities took it over in 1985. ABC lags behind CBS in overall household ratings, but it is quickly closing the gap. Durable hits such as *Home Improvement* and more recent successes such as *NYPD Blue* made ABC dominant among viewers aged 18 to 49. And media analysts figure that splashy events such as the Super Bowl and the Emmy Awards telecast will vault the network to first place.

where is ABC's momentum more apparent than on Madison Avenue. The network sold \$1.37 billion worth of time in the recently completed sales season—\$125 million more than any other network, and 26% more than last year. As a result, Smith Barney's study predicts ABC's operating profit will jump 41%, to \$260 million, on revenues of \$2.9 billion. All told, the network's operating profit will rise 20%, to \$1.1 billion, in 1994, on revenues of \$6.1 billion.

**WIDELY TIES.** ABC hopes to torque already strong profits by developing more programming that it can syndicate. The Federal Communications Commission will allow networks to charge syndication fees from in-house viewers by 1995. Anticipating this, ABC will own 8 of its 22 hours of prime-time programming next season. Iger and his chief programmer, Michael Harbert, have struck an array of deals with Hollywood producers for stakes in shows such as *Thunder in Paradise* and *Blue Skies*.

Iger has also improved ABC's shaky relationship with its affiliates. He recently signed 10-year agreements with two powerful station groups, Scripps Howard Broadcasting Co. and Hearst Broadcast. Says Peter B. Desnoes, former chairman of the ABC Television Affil-

iate Assn.: "Before Bob came along, Cap Cities was closer in attitude" to CBS or NBC—networks that are hardly known for their warm affiliate relationships. Such ties are increasingly important in an era of eroding loyalty.

Iger hasn't solved every problem. Advertisers remain wary of producer Steven Bochco's acclaimed but controver-

sial drama *NYPD Blue*. Despite its popularity, ABC is still selling ads on the show at a discount. The brouhaha over *Blue*'s occasional nudity and profanity may even have put Iger's life in danger. Cap Cities suspects that two letter bombs addressed to him were mailed by a viewer outraged by the program. Police defused both bombs without incident.

But Iger now travels with a round-the-clock bodyguard.

If Iger has made some dangerous enemies outside ABC, he also has powerful champions inside. Ted Koppel says he is grateful for Iger's efforts to gain live airtimes for *Nightline* in markets where it was being delayed until late at night. Of Iger as a prospective CEO, Koppel says: "I would certainly love to see that happen. He is smart, tough, and a decent man."

**JUST LISTENING?** For now, Iger may need patience more than any other virtue. Murphy has left no doubt that he still plans to call the important shots. Last March, for example, he set up a finance committee on the Cap Cities board—consisting of him, Burke, and Buffett—to consider any proposed deals. Iger is not yet a board member.

Murphy says his goal in making any deal would be to expand ABC's role as a programming provider. With only \$620 million in long-term debt, analysts figure Cap Cities could pull off a \$5 billion to \$10 billion acquisition. Investment bankers say Cap Cities has listened to proposals from companies such as Walt Disney, Turner Broadcasting System, and Paramount Communications. Insiders have also pressed Murphy to consider buying King World, which syndicates such hit programs as the *Oprah Winfrey Show* and *Wheel of Fortune*. At the moment, though, Murphy is playing down the likelihood of a major deal. "We always thought we were better buyers than sellers," he says, "but we haven't seen anything we really want to buy."

Murphy's rivals take him at his word. But as he himself points out, Cap Cities hasn't stopped building since it bought its first UHF television station in Albany, N.Y., 40 years ago. With business booming and his line of succession still shaky, Murphy's final play may be the biggest of his career.

By Mark Landler in New York, with Ronald Grover in Los Angeles

## ANOTHER MEDIA MARRIAGE?

*With its thriving network and strong balance sheet, Cap Cities/ABC says it's open to a major deal. Among the most-discussed partners:*

**WALT DISNEY CO.** A merger would give Cap Cities programming muscle, while Disney would get a distribution system. Disney Chairman Michael Eisner began his career at ABC.

**TURNER BROADCASTING** Ted Turner badly wants a network. And Cap Cities' ESPN would complement Turner's CNN overseas.

**KING WORLD** Buying the syndicator would help ABC syndicate the growing number of shows it owns—though Cap Cities CEO Tom Murphy is leery of getting into that business.



**THE SUCCESS OF SUCH SHOWS AS HOME IMPROVEMENT AND NYPD BLUE MAKE MANY BELIEVE THAT ABC NETWORK BOSS ROBERT IGER HAS THE INSIDE TRACK IN THE RACE FOR CAP CITIES' TOP SPOT**





# INEQUALITY

## HOW THE GAP BETWEEN RICH AND POOR HURTS THE ECONOMY

**W**hen Armando G. de los Santos graduated from Fort Collins (Colo.) High School in 1985, he landed a minimum-wage job bagging groceries in a local market. He has since moved to another store, where he makes \$9.50 an hour in the meat section. But years of searching for something better have taught him a harsh reality: The well-paying blue-collar jobs that gave U.S. workers rising living standards for most of this century are vanishing. Today, you can all but forget about joining the middle class unless you go to college.

That's an economic hurdle de los Santos can't clear. One of eight children,

he couldn't turn for assistance to his parents, a custodian and a homemaker. In 1992, he won a \$1,500 scholarship to Colorado State University, attending class days and working nights. But when his grant and savings ran out after a year, he couldn't afford the \$4,000 annual tuition. So he went back to supermarket work full-time and, at 26, began moonlighting as a bartender to save for more schooling. "I want a better job," he says, "but I need a BA."

De los Santos is wrestling with a challenge that confronts millions of Americans—and holds dire consequences for the entire economy. Since the late 1970s, an explosion of income inequality has

occurred along educational lines. Families in the mostly college-educated top quarter—those with annual incomes today more than \$64,000—have prospered thanks to rising demand for high-skilled workers and tax cuts for the rich (charts). Meanwhile, import competition and the decline of unions have left families in the bottom quarter—where breadwinners often dropped out—stopped after high school and earning less than \$22,000—stranded in low-wage jobs. This has led to the widest rich-poor gap since the Census Bureau began keeping track in 1947: Top-fifth families now rake in 44.6% of U.S. income, versus 4.4% for the bottom fifth. As recently

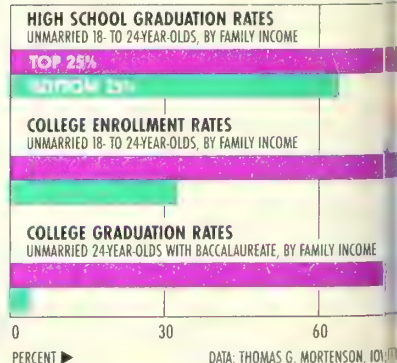


### A GROWING GAP BETWEEN RICH AND POOR

| INCOME LEVEL | AVERAGE FAMILY INCOME AS SHARE OF NATIONAL INCOME |
|--------------|---------------------------------------------------|
|              | 1980                                              |
| TOP 25%      | 48.2%                                             |
| SECOND 25%   | 26.9                                              |
| THIRD 25%    | 17.3                                              |
| BOTTOM 25%   | 7.6                                               |

DATA: CENSUS BUREAU

### ...IS DAMAGING EDUCATIONAL LEVELS



DATA: THOMAS G. MORTENSON, IOWA



the top got 41.6%, the bottom 5.1%. Even as a good education has become a litmus test in the job market, moreover, the widening wage chasm has made it harder for lower-income people to get to college. Kids from the top quarter have had no problem: 76% earn bachelor's degrees today, vs. 31% in 1970. But less than 4% of those in bottom-quarter families now finish college, vs. 10% then. Their troubles start early: lower-income children, a growing share of the total, do worse in school and drop out more than three times as often as top kids.

As distressing as those trends are, a small but expanding cadre of economists argues that they may herald something even worse: lower U.S. growth fueled by inequality. It's already clear that income disparities hurt skills. The share of workers with college degrees, which peaked in the 1970s as baby boomers and women entered the workforce, has slipped off. The national high school dropout rate remains in the double digits. And test scores are flat for junior high and high school students: America ranks No. 13 in math and science skills among 15 industrialized nations. All these averages are pulled down by low-income students.

This lack of progress comes at a critical moment. In nearly every industry, the spread of new technologies is creat-

ing a need for employees who know how to do more. As companies reorganize, moreover, they're pushing decision-making down the ladder. If U.S. workers can't handle these changes, companies will be less productive than they should be. And that's a prescription for a stunted economy. "A great skill shortage is going to occur that will eat away at our competitiveness," worries John L. Clendenin, chief executive of BellSouth Corp., which interviews up to 50 applicants for each technician job. "And economics has a lot to do with it."

**"BIG SHOCKER."** Most of the new theory linking inequality and the overall economy is based on mathematical models of growth created by economist Paul Romer at the University of California at Berkeley. Recently, a half-dozen economic theorists have used his methods to show how income gaps hurt gross domestic product by lowering efficiency. At the same time, urban economists have provided some empirical verification by showing that growth in jobs and income is slower in cities with wide wage inequities and faster where incomes are more on a par. "Maybe even the rich can be worse off from inequality," says Romer. "We now must think seriously about something we didn't believe could happen."

Such ideas turn traditional economic thought on its head. The conventional

wisdom holds that the overall economy is largely unaffected by how income is shared. It's total income that matters, the thinking normally goes, since consumers fuel demand—be it for yachts or bread. It's O.K., too, if the rich just save their surplus, since that will finance new investment. Until recently, in fact, most economists thought inequality was a result, not a cause, of slow growth. That view lost its luster in the 1980s, however, when "the big shocker was that the country got richer and those on the bottom didn't," says Northwestern University sociologist Christopher Jencks.

If this trend persists, it could tarnish America's image as a land of opportunity. True, there's still more economic mobility in the U.S. than in most countries. But "a society divided between the haves and the have-nots or between the well-educated and the poorly educated... cannot be prosperous or stable," warned Labor Secretary Robert B. Reich upon the release of a May report documenting rising inequality. Adds Republican strategist Kevin Phillips: "This stratifying starts to make us into a different country. It goes to the American notion of fairness."

Just ask Michelle M. Mouzon, whose lack of education has left her nearly destitute since she lost her \$12-an-hour factory job last year. A high school gradu-

## AND POOR FAMILIES...

| AVERAGE FAMILY INCOME<br>THOUSANDS OF 1992 DOLLARS |                |
|----------------------------------------------------|----------------|
| 1992                                               | PERCENT CHANGE |
| \$91,368                                           | UP 15.9%       |
| 46,471                                             | UP 5.5%        |
| 28,434                                             | UP 0.7%        |
| 11,530                                             | DOWN 6.8%      |

## SHOWING THE GROWTH OF THE SKILLED WORKFORCE



SOURCE: BUREAU OF LABOR STATISTICS; JOHN BISHOP, CORNELL UNIVERSITY; BW



NORMAN MAUSKOPF/MATRIX

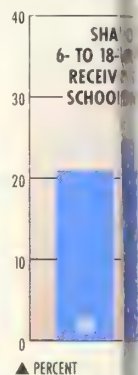




## INEQUALITY IN THE CLASSROOM

Studies show that poor students face many more disadvantages than more affluent kids, both at home and in school. That's part of the reason why they score so much lower on standardized tests.

WITHIN LOW-INC STUDIES



\*CHILDREN ELIGIBLE FOR FREE LUNCH EARNING \$18,665 A YEAR  
DATA: AGRICULTURE DEPARTMENT

### RICH KIDS

Students at the Valley School in Flint, Mich., all go on to college...

uted to a separation from her husband in January. Unable to afford their apartment by herself, Mouzon lived in a hotel with friends while Amber, her 11-year-old, stayed with grandparents—and paid a price. “Amber has been in three different schools this year,” says Mouzon. “It has set her back.” Mouzon finally found an inexpensive one-bedroom apartment and landed a \$6.50-an-hour, three-month accounting internship through the college. Now, she works days and goes to school nights to finish her degree.

**CORRECTION TIME?** There’s a theory that inequality may not stay high for long. University of Chicago economist Steven J. Davis says that when wage gaps get too skewed, college enrollments tend to surge, creating a surplus of graduates whose pay then goes up more slowly. For now, though, the baby bust—and inequality itself—are limiting the numbers of BAs, so pay for the educated keeps rising. The result, predicts Anthony P. Carnevale, chief economist at the American Society for Training & Development: “Inequality will get worse as

ate who lives in Waukesha, Wis., Mouzon enrolled in a technical college to learn accounting. But she says tensions over her job loss contrib-

the economy accelerates, because companies need more skills.”

Nor will Washington provide solutions. The Clinton Administration has responded with measures to bolster training and education—promoting apprenticeships and granting more generous college loans. But budget constraints have hampered these efforts. And in any case, they are minuscule compared with strategies Europe uses to fight inequality, such as high minimum wages and mandated corporate-training expenditures (page 82). Unable to win over Congress, Clinton has dropped such ideas, which he embraced in his campaign.

Actually, the rich-poor debate has narrowed considerably since flaring during the Reagan years. “The facts about higher inequality are no longer in dispute,” says Davis. One secondary argument centers on which of several factors are paramount: rising imports, the decline of organized labor, an influx of unskilled immigrants, demand for higher-skilled

workers prompted by new technology. Reagan-era tax cuts, which many studies show to be at least part of the problem. There is also a theory, offered by Northwestern’s Jencks and others, that the poor may have held their own to some degree. The evidence is their consumer spending, which some studies haven’t fallen. Other research, however, such as that by Harvard University economists David M. Cutler and Lawrence F. Katz, has found the opposite. And in any case, note Jencks and other statistics on consumption aren’t as reliable as the income figures the Census Bureau reports.

**DOMINO EFFECT.** Those show better Americans rapidly outpacing the first. Pretax hourly pay climbed 2% after inflation for the top quarter of earners between 1980 and 1992, says Rand Corporation economist Lynn A. Karoly, while the real hourly pay of the bottom quarter skidded 4%. The gap is starker by education level. Pay of dropouts

plunged 20% by 1992, the latest comparison year available, while that of college grads bumped up 4%, according to an analysis of Census figures by the Economic Policy Institute, a Washington research group. The story is similar for family income, which includes two-salary couples’ earnings such as interest and rent. Top-quarter families have beaten inflation by 16% since 1980 and earned \$91,000 on average in 1992,

## HOW INCOME GAPS AFFECT JOB GROWTH

A study of the 85 largest metropolitan areas found a strong link between the rate of job growth and the gap between incomes of city residents vs. suburbanites. Here are the cities with the largest city/suburb income gaps and those with the smallest.

### JOB GROWTH IS SLOWEST WHERE THE GAP IS WIDEST...

| CITY AND SUBURBS | CITY DWELLERS' INCOME (1990)* | JOB GROWTH** 1980-90 |
|------------------|-------------------------------|----------------------|
| NEWARK           | 47%                           | 8%                   |
| DETROIT          | 48                            | 8                    |
| CLEVELAND        | 50                            | -0.6                 |
| BUFFALO          | 55                            | 5                    |
| ST. LOUIS        | 56                            | 12                   |

\*MEDIAN ANNUAL HOUSEHOLD INCOME AS A PERCENT OF SUBURBANITES' INCOME

### ...AND STRONG WHERE THE GAP IS NARROWEST

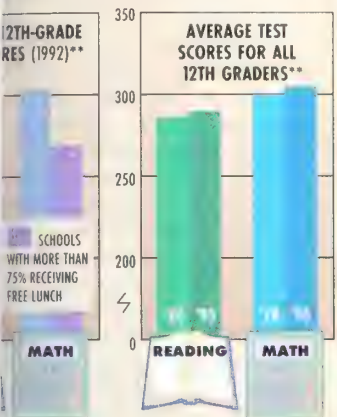
| CITY AND SUBURBS | CITY DWELLERS' INCOME (1990)* | JOB GROWTH** 1980-90 |
|------------------|-------------------------------|----------------------|
| LAS VEGAS        | 99%                           | 39%                  |
| W. PALM BEACH    | 99                            | 38                   |
| CHARLOTTE        | 99                            | 22                   |
| NORFOLK          | 97                            | 25                   |
| SAN DIEGO        | 94                            | 34                   |

\*\* TOTAL FOR CITY AND ITS SUBURBS  
DATA: WAYNE STATE UNIVERSITY



ING  
RLY  
TESTS...

...OVERALL  
PERFORMANCE  
LEVELS STALL



10 POINTS DATA: NATIONAL ASSESSMENT OF EDUCATIONAL PROGRESS



ng to Census. But the bottom quar-  
lipped by 7%, to \$11,500.  
has taken economists 60 years to  
that such gaps can hinder growth.  
ng the Depression, British econo-  
John Maynard Keynes worried that  
ality sapped aggregate demand.  
n the 1950s, American Simon Kuz-  
redirected the debate by arguing  
inequality waxed as countries devel-  
oped and waned after they industrialized.  
e this squared with the falling rich-  
gap in Western countries after  
d War II, experts subsequently fo-  
d on how growth affected income  
tribution, not vice versa.  
e new theory finds that the effect  
go both ways. It employs concepts  
eered by Berkeley's Romer to show  
a company's productivity improve-  
s depend not just on capital invest-  
ts and the skill of workers but also  
he efficiency

ly and neighborhood income. Such ideas  
are usually presented in highly theoret-  
ical papers, which argue that because  
large income gaps undercut worker skills,  
employers will face shortages of qualified  
employees that undermine corporate  
efficiency.  
Some samplings of this work: Brown  
University economist Oded Galor con-  
cludes that productivity suffers when  
poor families can't borrow enough to ed-  
ucate their kids. In another study, Uni-  
versity of Wisconsin economist Steven  
N. Durlauf concludes that widening in-  
equality hurts education in poor com-  
munities deprived of school tax dollars  
and the role models of professional par-  
ents. Beyond that, theorizes Columbia  
University economist Roberto Perotti,  
as the rich race ahead, they balk at the  
high taxes needed to educate poor chil-  
dren better.

That's short-  
sighted, because  
inequality may  
brake growth so  
much that even  
the rich lose out  
over 5 to 10  
years, calculates  
Massachusetts  
Institute of Technology economist Rol-  
and Benabou in another paper. "If you  
move to a rich suburb, it will improve  
your children's education," he says. "But  
if their co-workers still in the city are  
left sufficiently deficient in their educa-  
tion, it will more than offset the advan-  
tages your children gained," because pro-  
ductivity and growth suffer.

**POOR KIDS**  
...While low-income  
students upstairs  
are lucky to finish  
high school

**DOWNTOWN SLOWDOWN.** There's a  
mounting, though still largely circum-  
stantial, body of evidence to back up  
the theory. So far, most of it comes  
from urban economists, who look at re-  
gional rather than macroeconomic  
trends. Still, they offer some compel-  
ling evidence. For instance, central  
cities' per capita incomes were nearly  
equal to those of their suburbs in 1973,  
according to a study of the 85 largest  
metropolitan areas by Larry C. Ledebur,  
an urban studies professor at  
Wayne State University. But by 1989,  
city dwellers earned 16% less.

And where inequality rose the most,  
everyone suffered. Employment climbed  
an average 41% in the 1980s in 13 met-  
ropolitan areas where the suburbs' aver-  
age household income was only 12%  
more than the city's, according to Ledebur.  
But job growth was only 14% in  
the 13 areas where suburban incomes  
were 40% higher. Ledebur thinks that  
lagging city incomes generate poverty  
and fiscal crises, which stunt invest-

the efficiency  
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TOP TO BOTTOM PHOTOGRAPHS: PETER VATES/SABA; JAY DICMAN





## STRUGGLING Michelle Mouzon has been nearly destitute since los- ing her factory job

lunch, which means their parents make less than \$18,655 a year. Two have been killed in street violence. To Haffner, success is getting her charges back into 9th grade so some might finish school.

Haffner's kids are

hurt not so much by poverty itself as by despair bred by economic disparities. Indeed, Korean and Taiwanese students outperform Americans in math and science even though their incomes are much lower. But experts say children whose families are losing ground—while the affluent gain—often don't see the point of school. "You feel left out when you're low-income and inequality is rising," says University of Illinois sociologist Jonathan Crane. "Lower-class kids lose a sense of self-worth, which leads many to rebel or lose their initiative." Haffner sees this every day. "Our stu-

ment and productivity in downtown companies that employ suburbanites.

Hank V. Savitch, an urban policy professor at the University of Louisville, has even quantified how much the well-off lose. Suburbanites forgo \$690 in annual income for every \$1,000 gap between their earnings and the city's, he and three colleagues found in a study of income growth between 1979 and 1987 in 59 metropolitan areas. Like Ledebur, he thinks cities and suburbs prosper or decline together. "As the disparities increased in the 1980s, it dragged down everyone's income," Savitch says.

No one yet has proven similar links between inequality and the entire economy. Most economists agree, however, that education and skills are key to economic growth. And there's lots of evidence that skills suffer when the wealthy go it alone. For example, school districts that mix rich and poor kids have higher reading and math scores than those where each group attends different schools, according to a 1989 study of 475 California districts. Rich kids do score higher when they're all in one school. But with mixing, "low-achieving kids are pulled up more than the high end is dragged down, so the average is higher," says study co-author Mark Dynarski, an economist at Mathematica Policy Research Inc. in Princeton, N. J.

**DESPAIR AND REBELLION.** Janet Haffner's alternative school in Flint, Mich., embodies this tale of two cities in one building. The Valley School, a prep school that charges \$6,000 a year, occupies two floors of a former junior high. All of its students go on to college. On the third floor, Haffner runs a public program for kids who have failed two grades—and who illustrate how the poor get left behind. More than 85% of her 110 remedial students get a federally funded free

dents are really discouraged kids," says. "They move constantly, change schools, lose friends, and lose hope."

That describes more and more kids. The ranks of low-income students—who get a free lunch—have risen to 21% of all children from 21% in 1980. That helps explain why U.S. students aren't gaining on their foreign counterparts. Poor kids score 30 points lower than affluent ones on standardized tests, for instance. That weighs down the average score of U.S. 12th-graders, which remained at about 300 out of a possible 500 points in the 1980s. The same goes for dropout rates: They're 50% higher for white 12th-graders in single-parent families—which earn less than two-parent ones—according to a 1993 study led by University of Virginia sociologist Robert M. Hauser. In contrast, University of Illinois' Crane found in a 1991 study, poor teens drop out a third less often if they live with enough adults—about 13%—are professionals. He says good neighbors make good role models.

**RISKY BUSINESS.** The diverging fortunes of the rich and poor have wreaked the most havoc at the college level. Tuition at public colleges, where 80% of students go, jumped an inflation-adjusted 49% in the 1980s, to \$1,900 a year, according to a study by Harvard University economist Thomas J. Kane. V-

## WHY THE GAP ISN'T SO GIANT IN EUROPE AND JAPAN

**T**he same economic forces that are driving a wedge between America's rich and poor have swept across every industrialized country. But according to dozens of recent studies, inequality has remained in check everywhere except in the U.S. and Britain. Here's why: European policies such as high minimum wages and countrywide (rather than company-level) collective bargaining offset market trends that would otherwise push high-skilled workers' wages up and keep those of the lower-skilled down.

"You can overcome the market forces that have driven up inequality, but you need government intervention to do it," says Harvard University economist Richard B. Freeman. He has edited a new book, *Working Under Different Rules*, which summarizes 54 studies that came to this conclusion by comparing U.S. and European labor markets. The catch is

that government meddling may have priced some low-wage jobs out of the market and hurt Europe's employment growth. Still, the new studies find the damage isn't as severe as many Europeans—and U.S. economists—fear.

There is little question that inequality has remained subdued in most industrialized countries. A study of U.S. Rand Corp. economist Lynn A. Packer found that those in the top 10% bracket earned 5.6 times as much an hour in 1992 as did men in the bottom 10%—a 17% increase in this ratio since 1980 (chart). The gap widened for men in Britain, which has many government-intervention programs. Even so, top earners there still earned only 3.4 times more than those at the bottom. By contrast, highly paid German men earn only three times as much as the lowest-paid, a ratio that didn't change in the 1980s. And Italy only edged up in Australia, Japan, and Sweden, according to Packer's book.

These countries offset market forces in various ways. France's highest minimum wages cover 12% of workers' earnings, less than 5% in the U.S. And U-



and board, the tab will run to \$100—an amount families should be expected to pay only if they earn \$10,000 a year, according to federal guidelines. Meanwhile, Pell grants—the federal program that gives an average \$500 a year to more than a quarter of the country's 14 million college students—trailed inflation by 13% in the 1990s, Kane found. True, there are more grants, which now account for two-thirds of college subsidies, vs. one-third in the 1980s. But loans are dicey. "College is an investment for most low-income families," says Thomas

Mortenson, who publishes an education newsletter in Iowa City. "Shelling out borrowed money on something so risky doesn't make sense to them."

Even many middle-class kids feel this way. Raymond D. Cristelli just finished high school in North Clarendon, Vt., and is planning for college. But his parents have been unable to help since the recession hit his father's auto-repair shop. "Anything the family can spare will go to his older brother, who left college when the money ran out and wants to return. During school, Cristelli worked nights and weekends at Taco Bell and a record store. Now, he is juggling both jobs to save for college.

## HARD CLIMB

**Raymond Cristelli works two jobs but may still need loans for college**



"I'm not comfortable taking loans, though I'm starting to face the idea that I'll have to if I really want to go," he says. Cristelli's story is typical. "The rich go to college more, which causes states to cut grants and raise tuition, keeping out poor students," says Kane.

Will anything reverse the problems inequality is causing? Clinton's attempts to make training and college more available will have some impact. But even in his dreams, he didn't envision the massive effort—such as a G.I. bill—that many experts believe is needed to give

workforce skills a real boost. Nor is the U.S. likely to adopt European-style social programs or labor laws.

Market pressures may still make a difference, some economists argue—pushing more people through college until they glut the labor market, their pay raises slow, and inequality eases. Indeed, the share of high school grads going to college has jumped to 62% from 49% in 1980. Still, the shortage of grads may continue. With bottom-half students stymied by falling incomes, most new enrollment has come from top-quarter students—81% of whom now go to college. The number of college-age youth is rising but only in lockstep with other groups: They'll stay at 10% of the population until 2005, Census projections show. In sum, the number of workers with a BA may edge up 1.5 points by 2000, to 26%—vs. a nearly 7-point hike in the '80s, says Cornell University economist John H. Bishop. He adds: "Even if enrollment rates rise for 10 years, there won't be enough college grads to drive their relative wages down."

Ever since slavery ended, the U.S. has at least partly lived up to the ideal that everyone should have an equal opportunity to prosper. Now, heightened inequality is undermining this concept. The U.S. will continue to suffer socially if the trend continues. And it's likely to suffer economically, too.

*By Aaron Bernstein in New York, with bureau reports*

they rise with inflation. In groups of unions and employee-led national wage settlements for most workers. And in Japan, to ensure that low-skilled workers in national bargaining. Europe more government-mandated proscriptions as more generous unemployment, welfare, and child-care pay—which help low-wage workers bob or keep afloat.

**ENTS.** Corporate has long resisted pressures as too costly. Economists also argue that they would discourage companies to hold back—impeding the growth the U.S. has enjoyed since 1980. In the European lead, blame their high unemployment on these. Most studies on national inequality point only partly to minimum wages. They do contribute to stagnant youth unemployment, although to

what extent is unclear, Freeman says. And Europe's generous welfare and unemployment benefits may ratchet up joblessness by giving some people an incentive not to work.

Still, European countries adjust in ways that hold down job losses, the studies find. For instance, French and German job-security laws prompt companies to reduce employee work hours before proceeding to pay cuts and layoffs—al-

though the current recession has triggered many furloughs. Extensive worker-training systems in Germany and Japan also offset inefficiencies caused by government intervention by helping less-educated workers become better substitutes for higher-skilled ones. And many European social programs push people to work by placing time limits on welfare or providing day care for single mothers—similar to President Clinton's ideas

for welfare reform. The bottom line on Europe's strategies for fighting inequality is that "in general, the programs do not have major efficiency costs," concludes Freeman.

Of course, the U.S. can't simply copy what other countries do. But Freeman and others argue that it can adapt many European methods to the American context. There's no sign, however, that this is likely to happen anytime soon.

*By Aaron Bernstein in New York*





# WHAT'S AHEAD FOR THE BAD-NEWS BULLS

The shorts are back. Here are two of the targets they're circling

*Short selling is back in vogue again. After three years of suffering through negative or breakeven returns, short sellers, who profit from stock declines, have been churning out their best returns since 1990. Mainly, they can thank the lackluster stock market, which has exposed a bevy of inviting targets—such as Western Water and Incomnet.*

## 'PAPER WATER IS NOT WET WATER'

**T**here's an old saying among Colorado ranchers: "Whiskey's for drinkin', water's for fightin'." You can mess with my wife, just don't mess with my water." But these days, there's plenty of messing going on along little Cherry Creek, a mere trickle south of Denver that any cowboy could spit his chaw across. For the past two years, San Diego-based Western Water Co. has been snatching up land and water rights on either side of the creek bed in a bold plan to pump groundwater into the creek and sell it downstream to Denver's thirsty southern suburbs.

The proposed water project is the biggest deal to hit the ranches around Cherry Creek since prospectors found gold there in 1859. "We plan to make 10 times our original investment over the next 18 months," boasts Western Water Chief Executive Peter L. Jensen, who claims the developed water rights will be worth at least \$100 million. Many local water experts are skeptical. "Any water deal in the arid West looks inherently good to outsiders," says David L. Little, planning manager for the Denver Water Dept. "But I would be suspicious of their plan. Paper water is not wet water."

The dispute has stirred up a nasty stock market battle. Jensen's brazen plans, which include other unusual water ventures, have helped push Western Water's share price to \$25 a share, from under \$2 in 1991



**JENSEN PREDICTS "A PAINFUL DEATH" FOR SHORT SELLERS**

(chart), even though not a drop of Cherry Creek water has yet been sold. Investors include First Boston Special Situations Fund and the Dreyfus New Leaders Fund. But short sellers, who have hired their own hydrologists, are so convinced that Western Water is a hoax that they have sold short 535,000 shares, nearly half of all Western Water stock

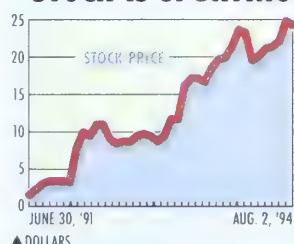
that trades. "We're in a Mexican standoff," says one short seller who is convinced Western Water is "a quasi-thing nothing more than hocus-pocus."

**SNOW PACK.** Undeterred, Jensen and Denver water guru, John H. Hus, are starting to exploit what they claim is the only reliable water source in the area. Western Water has already ac-

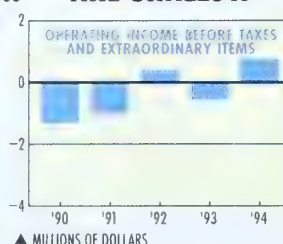
mulated 4,700 acres along the creek for \$9.2 million. But there are a couple of hitches. It's uncertain if anyone will want to buy the stuff. Since the entire region sits atop an aquifer, water districts can just as easily tap into water below their own communities as buy from Jensen.

A worse hitch, say municipal water managers and hydrologists, is that all of the ground-

### WESTERN WATER'S STOCK IS SPURTING...



### ...BUT PROFITS ARE SHALLOW



DATA: BRIDGE INFORMATION SYSTEMS INC., COMPANY REPORTS



r in the region could eventually be depleted, including Western Water. Many local water managers are tiating with the Denver Water for a more enduring water source: e of the precious snow pack that s into the city's reservoirs each "Western Water is the water of resort," says Steven A. Boand, a y hydrologist. Western Water says talk is merely a bluff and that s along the creek will come around y its water soon enough.

tybe. What's certain is that contro- is nothing new for either Jensen Huston. During the 1980s, Jensen d as president of Yuba Natural Res- Inc., a California gold-mining rn headed by San Diego executive rd T. Silberman. In 1990, Silber- pleaded guilty to money laundering. 's operations were scrutinized by eds, but Jensen was never implicat- ys the boyish Jensen, an avid surfly phone was tapped. But all they said to me is, 'Geez, you sure call urf Report a lot.'"

**TIES.** In 1992, Jensen teamed up Huston, a geologist and lawyer by ng who became infamous in Denver circles in the 1970s when he at- ted to lay claim to the entire under- d water supply of the Denver ba- lis claim was nixed by the courts, says H.J. "Chips" Barry, head of Denver Water Dept., "he's been gof- ter that water ever since."

nsen's and Huston's ambitions e beyond Colorado. In April, West- Water announced an agreement the Atchison, Topeka & Santa Fe ay Co. and local California water als to look into piping water from fers along the railroad's right of to the city of Barstow in the Mo- Desert. Critics say Western Wa- s using the Santa Fe name to pro- its stock. But Santa Fe official

rt Miller says "the stock was being d long before we got involved." sists that the railroad has ng to lose and believes there be valuable water rights the old whistle stops. "I ht some of the damn myself," says Miller, not much."

for the short sell- Jensen predicts that "are going to die a ul death" when the r starts to flow. "A lot ople think I'm smart, and a eople think I'm full of bull." ys. Either way, a lot of folks soon going to learn that mes- around with Colorado water is a erous game.

By Eric Schine in Denver

## A PHONE COMPANY WITH THE WRONG KIND OF HUM

**F**or investors in Incomnet Inc., the Information Highway seems to be paved with gold. The Woodland Hills (Calif.)-based long-distance carrier is expected to bounce back in 1994 from a \$949,000 loss last year and earn a tidy \$3.5 million. Incomnet predicts it will rack up \$35 million in sales, more than triple last year's volume. And the company's stock has soared over 60% since January, to about \$10 a share.

But investors may be in for a bumpy ride. The signs of trouble: Sales representatives are leaving the company in droves, some griping the company hasn't paid them what they are due. Others complain that top executives are more concerned with recruiting reps—who pay up to \$695 for a package of training material and phone calling cards—than with signing up customers. Sales of material to the marketing force accounted for 38% of revenues last year. In states like California, multilevel marketing concerns that generate a large percentage of revenues

from sales to a company's own staff can be in violation of antipyrmaid laws.

Short sellers—who have pushed short interest in the stock to 1.2 million out of 7 million shares that trade—have spread the word about the ties of two top company advisers to a fraudulent 1980s-era multilevel marketing operation.

Incomnet Chairman and CEO Sam D. Schwartz denies the company is in trouble. He insists he's engaged in a legitimate business: reselling long-distance service by buying time from other carriers. And he boasts that Incomnet's 20,000 sales reps signed up 100,000 new customers in the first half of 1994 and will add another 150,000 in the second

half. "We are as straight an arrow as you'll find," he says.

Schwartz takes particular exception to suggestions that Incomnet might be a pyramid scheme. Salespeople get bonuses for signing up reps, but only after the new recruits sign up at least 10 customers. Schwartz denies that the company focuses on new reps and estimates the percentage of revenues from sales to sales staff will drop to 20% by yearend.

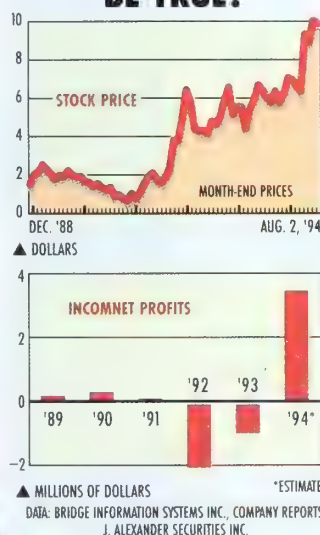
California Deputy Attorney General Albert N. Sheldon says his office is considering whether to require

Incomnet to register with the state, which regulates some multilevel marketing plans that require a substantial investment by reps. He won't say if Incomnet has run afoul of his state's antipyrmaid laws.

**SERVED TIME.** Shorts are trying to raise that specter by noting the links between an earlier fraud involving two Incomnet officials. Christopher J. Mancuso, director of product development for Incomnet subsidiary National Telephone & Communications Inc., pleaded guilty in 1986 to mail fraud. The charges stemmed from a multilevel cosmetics marketing scheme involving a company called Culture Farms Inc. that fleeced investors out of an estimated \$40 million. Culture Farms went bankrupt in 1985. Mancuso was fined \$10,000 and served nine months in federal custody. Incomnet's Schwartz says Mancuso has "done nothing dishonest since I've known him."

Jerry W. Ballah, NTC's marketing

### TOO GOOD TO BE TRUE?



### SCHWARTZ: A MUTINY AND ALLEGATIONS TO QUELL





head, helped set up Culture Farms in late 1984. But he says he was merely a grower of cultures used in the cosmetics and lost money himself. He was, however, named in a civil suit filed by the bankruptcy trustee, who claimed Ballah received money from the operation.

Schwartz now seems to be having more trouble with former sales reps than with regulators and short sellers. Current and former reps gripe that NTC failed to pay commissions and bonuses. Several blame this on mismanagement, including weak computer systems. One dispute has turned ugly. Former rep Raymond Leonard, who is involved in a legal tussle with the company, claims he is owed \$106,800 in commissions. Now a partner in another long-distance reselling business, Leonard also contends the company has hired a private eye to trail him. "We've had people break into our cars and go through our garbage," he says.

**FIGHTING BACK.** NTC President Edward R. Jacobs says that while the unit has had some growing pains, every salesperson owed money has been paid. He declined to comment on whether the company has used a private eye to trail Leonard.

But NTC is going after some of its critics with a vengeance. It is suing five onetime reps, including Leonard, contending they used confidential NTC lists to woo away large customers. The complaint alleges that the former staffers have been recruiting other NTC reps by warning that NTC "is run by a group of crooks." The company is seeking to recover \$500,000 and undetermined punitive damages. On July 29, a California judge barred the defendants from using NTC's customer and sales-rep lists. Leonard's lawyer says his client hasn't used proprietary information.

The rancor is taking its toll. In its suit, the company admits losing "innumerable" salespeople due to the group's tactics—and that in some parts of California, it has lost more than half of its customers and reps.

As the disarray mounts, some insiders are lightening up on their holdings. Since November, Incomnet director Joel W. Greenberg has sold nearly 376,000 shares, reducing his stake to about one million shares. Jacobs has sold more than 36,000 shares since April but still holds about 47,000 shares. Both say they sold for personal reasons, and Greenberg says he recently bought 20,000 shares.

If the sales reps and the shorts are right, holders might want to exit this Information Highway.

*By Amy Barrett in Washington*

# ROY NEUBERGER: THE THRILL ISN'T GONE

At 91, the iconoclastic stock trader still relishes a quick hit



NEUBERGER  
HIS HOME IN  
PEEKSKILL, N.Y.  
WITH 65 YEARS  
ON THE STREET  
HE HAS LIVED  
THROUGH MANY  
MARKET CYCLES  
AND HAS A  
PERSPECTIVE  
SHARED BY FEW  
PEOPLE—HIS  
FIRST TRIUMPH  
WAS SHORTING  
RCA STOCK  
RIGHT BEFORE  
THE 1929 CRASH

**R**oy R. Neuberger is an addict. His compulsion has dominated his life for nigh on seven decades. And at 91, he admits that the situation is hopeless. It is now 55 years since he co-founded the money-management firm of Neuberger & Berman. He has seen crashes and scandals, market fads and fallacies—and more stock market cycles than you can shake a walking stick at.

Yet nearly every day, he comes in and feeds his hunger. He trades. And trades. Confesses Neuberger: "I'm addicted to the fascinations of the market."

Roy Neuberger represents a vanishing breed—the grand old men of Wall Street. Having lived through many market cycles—his first big success was shorting RCA right before the crash of

1929—the ebullient Neuberger has a perspective on the stock market shared by few people. In an interview with *BUSINESS WEEK*, Neuberger provided an increasingly rare exposition on his investment philosophy.

**"VERY NATURAL."** When it comes to timing the market, Roy Neuberger is quick on the trigger as a spry young lad of 65. He is an active short-term trader. It is a philosophy that his partners take pains to point out, is dramatically different from the long-term credo of the conservative, \$30 billion money-management firm that he founded. Indeed, Neuberger's relish for good trade is palpable. A visitor to his office hears him bemoan the fact that he didn't sell a stock that had risen 5% the past day—it was now up only 2.5%. And he still likes short-selling—another trading technique eschewed by his firm.

Most investors can't afford the risk that Neuberger gets from short-term trading, and Neuberger doesn't recommend the strategy unless "it's very unusual for someone." He thinks most individual investors should invest for the long term—but not mindlessly. Selling

The unanswered question: Is Neuberger making money in the market, or is his rapid-fire trading an expensive hobby?



...e, often neglected by small invest-  
 ...uberger pays close attention to an-  
 ...nuts-and-bolts factor—the strength  
 ...company's management. There is  
 ...much arrogance in management"  
 ...; he says. He cites Microsoft Corp.  
 ...an example of good management;  
 ...recent, unspecified Wall Street  
 ...als as instances of bad. Neuberger  
 ...n't buy Microsoft at its current  
 ...tion but adds that "it's such a fan-  
 ...stock that it can't be classed with  
 ...technology stocks."

Neuberger making money in the  
 ...et, or is his rapid-fire trading an  
 ...sive hobby? When asked if he has  
 ...money year-to-date, he dodges the  
 ...ion, claiming that "over the years  
 ...fared well more than 90% of the  
 ...I've been lucky." The best years:  
 ...1950s. The worst? The late 1960s,  
 ...the market "refused to value stocks  
 ...were persistently strong." Neuberger  
 ...1994 has been more difficult than  
 ...ther. The stocks of well-managed  
 ...anies are moving in a narrow range,  
 ...ag trading gains harder to come by.  
 ...Corp., for instance, "is an extraordi-  
 ...7 well-managed company," he says.  
 ...it hasn't gone up or down much,  
 ...t's been tough to do anything but  
 ...e it as a good company."

**GAFFE.** Neuberger seems frustrated  
 ...ie irrationality in today's market.  
 ...lames some of the dislocation on the  
 ...ie influence" given to "the host of  
 ...ie at research firms that give re-  
 ...of upgrades and downgrades." Says  
 ...erger: "I think it's ridiculous that  
 ...ons are taken that seriously." He is  
 ...ritical of the leverage that has flood-  
 ...ie financial markets. "Certain mar-  
 ...are too influenced by people who  
 ...themselves speculators, but they  
 ...t be called gamblers," he says. The  
 ...income markets "have become more  
 ...ling mediums than they used to be,"  
 ..."bonds... pretty much as specula-  
 ...as stocks."  
 ...uberger's outspoken views are  
 ...y heard nowadays. That's because  
 ...artners prefer it that way. Calls to  
 ...ecretary of 30 years are routed to a  
 ...ier who greets a request for an  
 ...view with a flat "No." Further calls  
 ...the firm's managing partner, Law-  
 ...Zicklin, and culminate in an hour-  
 ...talk about how, while Neuberger is  
 ...firm's "conscience," he has not man-  
 ...any client assets for many years.  
 ...tually, reluctantly, Zicklin relent-  
 ...out asked that he be present. In  
 ...end, a compromise was reached—  
 ...berger would be accompanied by  
 ...one from an outside public rela-  
 ...firm.  
 ...hy the nervousness? The apparent  
 ...on is what Neuberger describes as

"boners" in talking to the press. In 1992,  
 he told a reporter that the stock of  
 Coca-Cola Co. "is so overvalued right  
 now that anybody who owns it is a mor-  
 on." As it turned out, some of his firm's  
 fund managers owned Coca-Cola. A  
 somewhat chagrined Neuberger now de-  
 scribes the chairman of Coca-Cola as a  
 "brilliant manager."

**"LOUSY ARTIST."** Neuberger's indepen-  
 dence is deeply ingrained. Orphaned at  
 12, Neuberger inherited money from his  
 father, a successful Wall Street trader.  
 He dropped out of New York Univer-  
 sity: "I wasn't learning anything," he re-  
 calls. For a time, he worked as an uphol-  
 stery and fabrics buyer for the  
 now-defunct B. Altman. He also stud-  
 ied art, which convinced him that he is a  
 "lousy artist." But he is a longtime pa-  
 tron of the arts.

Neuberger has had to slow down in  
 recent years. A run-in with a bicycle  
 messenger at age 85 resulted in a pin in  
 his hip and put an end to the daily walk  
 from his apartment on 82nd Street and  
 Fifth Avenue to the firm's offices 2½  
 miles away. Now, a driver takes him  
 from his apartment in the swank Pierre  
 Hotel to the firm's offices. He still swims  
 and works out with a personal trainer  
 three times a week.

Neuberger enjoys retreating to his  
 home in bucolic Peekskill, N.Y., and  
 spending time with his family. He has  
 been married to his wife, Marie, for  
 about 60 years, and they have three  
 children, eight grandchildren, and four  
 great-grandchildren. But his mistress,  
 the market, will always be beckoning  
 from the big city.

*By Suzanne Woolley in New York*

## LIKE FOUNDER, LIKE FIRM? NOT QUITE

**W**alking into the offices of old-  
 line money-management firm  
 Neuberger & Berman can  
 give visitors a shock. Instead of the  
 usual tasteful antiques, you see a chan-  
 delier created from what looks like drip-  
 ping wax, a wall assemblage involving  
 criss-crossed wood and eggs, and gold-  
 framed paintings in Day-Glo colors.

Don't let the art fool you. "Neuber-

ble). The funds' below-average expense  
 ratios are what helps them stand out  
 from the crowd. The \$611 million Select-  
 ed Sectors Fund, for example, boasts a  
 ratio of 0.92%, compared with an aver-  
 age 1.34% for similar funds.

**FRENCH ALLIANCE.** The firm's conser-  
 vative bent runs deep, influencing  
 even the partners' risk arbitrage fund,  
 created in 1972 as a way to use the  
 firm's capital without com-  
 ing into competition with  
 clients. The fund has done  
 "reasonably well," says  
 Zicklin. "We'd never take  
 enough risk to make it an  
 enormous loser or a big  
 winner."

Neuberger & Berman is  
 broadening its scope to  
 compete in the global mar-  
 ket. One of its most sig-  
 nificant moves was the for-  
 mation in 1992 of a joint  
 venture with Banque Na-  
 tionale de Paris (BNP),  
 France's largest commercial bank, to  
 create a firm that provides global in-  
 vestment-management services. The  
 alliance gives Neuberger a global pres-  
 ence—BNP has offices in 84 countries—  
 and access to BNP's analysts.

But the expanded global presence  
 won't detract from the firm's main mis-  
 sion: to invest, conservatively. The av-  
 erage age of portfolio managers, Zicklin  
 observes, is 56. Of course, as Roy Neu-  
 berger demonstrates, age and conserva-  
 tism are not always synonymous.

*By Suzanne Woolley in New York*

### NEUBERGER & BERMAN'S EQUITY FUNDS: HOW THEY'VE PERFORMED

| Fund                | Annual return |          |            |
|---------------------|---------------|----------|------------|
|                     | 1994*         | One year | Five years |
| <b>GENESIS</b>      | -4.7%         | 3.7%     | 8.3%       |
| <b>GUARDIAN</b>     | -1.5          | 6.7      | 12.9       |
| <b>MANHATTAN</b>    | -8.6          | -1.7     | 9.4        |
| <b>PARTNERS</b>     | -5.3          | 3.5      | 10.2       |
| <b>SEL. SECTORS</b> | -1.5          | 8.0      | 12.8       |
| <b>S&amp;P 500</b>  | -3.4          | 1.4      | 10.3       |

\*Through June 30

DATA: MORNINGSTAR INC

ger & Berman is not a story of new  
 things," says Lawrence Zicklin, the  
 firm's managing partner. While the  
 founder, Roy R. Neuberger, has cov-  
 ered the walls with contemporary art,  
 Neuberger & Berman is a place where  
 a tried-and-true value approach reigns  
 supreme. The firm manages some \$30  
 billion in client assets, including \$8 bil-  
 lion for wealthy individuals and \$7 bil-  
 lion in mutual funds.

The 55-year-old firm's philosophy has  
 yielded solid, but less than stellar, re-  
 sults in its no-load mutual funds (ta-



BY GENE G. MARCIAL

## UNHOOKING CABLE MAY PERK UP MEDIA GENERAL

**M**edia General is a major newspaper publisher, but lately the stock is being driven by its cable-TV operations. The price dropped to 22 in May, down from 28 in February, when the Street suddenly lost its ardor for the cable group. But Media General has since rebounded to 28. What's firing it up?

Some big investors are betting the company will soon be forced to spin off its cable business, estimated to be worth about \$700 million, or \$27 a share. These pros argue that Media General is much undervalued: In addition to cable properties, it owns several broadcast-TV stations and a sheaf of newspapers.

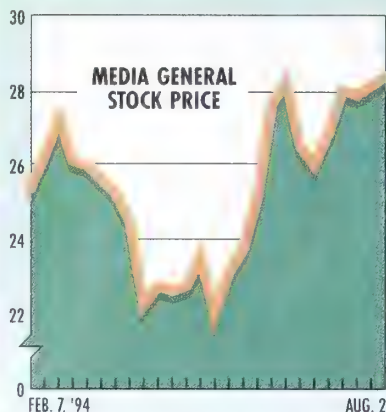
The intrinsic value of all its assets, including cable properties, is \$65 to \$80 a share, according to investor Mario Gabelli. His companies—GAMCO Investors and Gabelli Funds—recently increased their stake in Media General to more than 30%, up from 25% in 1992.

Gabelli says investors have been frustrated and disappointed ever since they supported management six years ago against raiders Burt Sugarman and Harold Simmons, who had launched a hostile takeover bid. Shares were then trading at 30. People close to Gabelli say he's eager to force management to spin off cable operations. They note that demand for cable assets has resurged, judging from recent deals done by Southwestern Bell and U S West. A "real consolidation" in cable is happening, says Salvatore Muoio, an analyst for Gabelli, "and the appetite for cable systems is definitely on the rise."

**HOT PROPERTY.** Media analyst Kendrick Noble recalls that Media General's cable holdings were what attracted raiders back in the 1980s. Says analyst Paul Sweeney of Wheat First Butcher Singer: "Media General's cable operations in the prime Washington (D.C.) area are among the best in the country, period." He has upgraded his rating from "hold" to "buy" since ad revenues and earnings have ramped up.

But even if Media General holds on to its cable, "the stock is still a good buy," says Sweeney. Media General owns four cable systems, with more than 200,000 subscribers. The compa-

## BONANZA IN STORE FOR STOCKHOLDERS?



DATA: BLOOMBERG FINANCIAL MARKETS

ny's broadcast operations include an NBC affiliate in Tampa and two ABC affiliates—in Charleston, S.C., and Jacksonville, Fla. In print, Media General has daily and Sunday newspapers in Tampa, Richmond, Va., and Winston-Salem, N.C., plus 14 weekly and twice-a-week papers in Florida. The company is also a major newsprint recycler.

## SCOTT PAPER COULD KEEP ON ROLLING

**A**mong this year's heavyweights is Scott Paper, which zoomed from 42 in mid-May to 61 on Aug. 3. Some investors, fearful the stock may be peaking, have bailed out. But diehard fans are not giving up. "Scott remains our single best pick in the paper group" despite its rise, says Linda Lieberman of Bear Stearns. She thinks it will hit 75 to 80 in a year.

Much of this optimism is due to new Chairman and CEO Albert Dunlap, who has launched an aggressive restructuring since his appointment in April. The move has included asset sales, cost-cutting, and layoffs of a total of 10,500 employees by the end of 1994.

The world's largest producer of paper tissues and napkins, Scott is also a major maker of coated printing paper and the owner of 2.8 million acres of timberland. Adding to the fire in the stock is the growing speculation that Scott has found a buyer for its coated-paper business. Dunlap has hired Goldman Sachs to evaluate Scott's S.D. Warren unit, which produces commercial-printing and specialty paper.

Rumors are flying that several U.S.

and foreign companies, including International Paper, Weyerhaeuser, Mead Paper, and Union Camp, have entered a second round of talks to buy the unit. S.D. Warren is said to be worth \$1.5 billion. CEO Dunlap says he's "very pleased with the way the talks are going." There's "a multiplicity of interest in S.D. Warren," he adds.

Analysts give Dunlap high marks for his moves. "Scott's restructuring is one of the most dramatic in U.S. industry," says Kathryn McAuley, analyst at Brown Brothers Harriman. Lieberman of Bear Stearns has raised her 1995 earnings estimate from \$3.50 a share to \$4.25, a big jump from 1994's estimated \$2.65 and 1993's \$1.50.

## FROM LAWN MOWER TO THE INFOBAHN

**B**y the time President and CEO Jack Phillips gets done reorganizing Actava, it will bear little resemblance to the Fuqua Industries unit he and his group acquired in April. Whispers are that Phillips has lined up several deals for an acquisition in telecommunications and information systems.

The purchase will be preceded by the closing of an agreement in mid-August to sell to Eastman Kodak a 50% Actava stake in Qualex, a wholesale photofinishing giant that the two own jointly. People familiar with the deal say Kodak will pay Actava \$150 million for its share. Talk of such a purchase has spurred Actava stock to jump from 7½ to 10 in recent days. Some big investors think the stock could double in a year if Phillips' overall scheme goes through.

Once the Qualex deal is done, say these pros, Phillips will proceed with selling off Actava's remaining business. Snapper Power Equipment, which makes lawn mowers, tractors, garden tillers, and snowblowers. A couple of companies have expressed interest in Snapper, and insiders say a deal will be signed soon. In May, Phillips sold Actava's four sporting-goods companies to Roadmaster Industries for \$10 million in stock. The deal gave Actava a 40% stake in Roadmaster, which is a major producer of bicycles and fitness equipment.

Financier John Kluge, who owns a big chunk of Actava, is expected to become chairman upon completion of Phillips' plan to transform Actava into a communications company.

# Rockwell cuts costs for NASA's frequent flyers by more than 20 percent.



## **Continuous Process Improvement saves millions on Space Shuttle operations and main engines.**

Whether it's helping NASA prepare the Rockwell-built Space Shuttle for flight, or producing its main engines, it takes innovative management to reduce costs while maintaining quality. From factory to launch pad, Rockwell gives NASA more for its money through Continuous Process Improvement.

A restless dissatisfaction with the status quo drives Rockwell people to seek better ways to

help all our customers succeed. Whether it's cutting an avionics production cycle by 68 percent. Giving commercial printers a pin-less folding system that reduces paper waste. Or employing simultaneous engineering to produce a complex truck-hood assembly in half the time.

Rockwell continuously seeks better ways to perform for our customers. Boosting our leadership in the diverse markets we serve.





## A NEW HIGH-TECH DYNASTY?

Taiwan's Wang family aims to be a global leader in computing

**B**eing the daughter of Taiwan's leading industrialist has a few disadvantages. Charlene Wang, 45, president of First International Computer Inc., has spent decades trying to maintain autonomy from her father, Y.C. Wang. The 87-year-old chairman of the Formosa Plastics Group has a passion for controlling every facet of his business. Indeed, Charlene founded FIC in the early 1980s in large part because it wouldn't interest her father. "The safest thing was to go into something he knew nothing about," she says.

But a decade later, her company has snowballed into a \$600 million producer of personal computers and their motherboards. Not surprisingly, the old man is taking an active interest. Facing increasing environmental constraints in the petrochemical field, the Wang family is now determined to become a global leader in information processing. FIC is taking the lead, backed by the \$6.7 billion Formosa Plastics Group, which is risking nearly \$1 billion on memory chips, liquid-crystal display panels, and a mammoth computer factory in China.

**MUSCLE.** The moves are being spearheaded by a new generation of Wangs (no relation to the family behind ill-fated Wang Laboratories). Educated in top Western universities, Charlene and siblings Winston and Cher preside over some of the family's fastest-growing businesses. Winston, vice-president of Nan Ya Plastics Corp., has advanced into electronics materials and printed-circuit boards. Cher, president of PC maker Everex Systems Inc., is pushing into the U.S. market. In the process, they have converted their father to the virtues of electronics. "He's seen what we've accomplished," boasts Winston.

By the time all the pieces come together five years from now, the Wang family companies could have combined electronics sales of \$4 billion. "They will be one of the most integrated computer companies in Asia," predicts Daniel A. Heyler, a Taiwan-based analyst for Dataquest Inc.

Many analysts are betting that the Wangs will succeed because of their financial muscle. Formosa Plastics' stated \$12.3 billion in assets includes vast real estate holdings that haven't been revalued in decades. Formosa Plastics Corp., the group's flagship, is laying out \$9.5 billion for a petrochemical complex expected to generate revenues of more than \$7 billion annually by 1998. It re-

China forced Y.C. Wang to call planned \$7 billion petrochemical on the mainland two years ago. Company revenues have stayed stagnant around \$1.2 billion, since 1991.

That's why electronics is seen as a new avenue of growth. Formosa executives believe their corporate culture prepared them to survive the industry's intense competition. Y.C. Wang has fostered a fanatical devotion to cost-cutting, and his 10 children—all of them executives in family businesses—maintained many of his frugal ways, of deference to their father, who died in his 80s before he agreed to fly first-class on transpacific flights. Children avoid being chauffeured executives when on business.

Those lessons in cost-cutting come in handy. In 1980, Charlene and her husband, Ming J. Chien, established FIC, which produced IBM clones under its Leo brand. Business took off in



cently opened a \$1.6 billion project in Point Comfort, Tex., and wants to invest billions more in China.

Yet the Wangs realize that there are limits to petrochemical expansion. In Texas, Formosa was fined a record \$4.3 million three years ago for mishandling hazardous waste and has been cited for dozens of worker-safety violations. The company has canceled plans for a controversial \$700 million rayon plant in Louisiana. Meanwhile, widespread criticism in Taiwan and bureaucratic delays in

when FIC moved into motherboards and main circuit cards at the heart of early PC. After the PC price war in 1991 drove out smaller competitors, FIC lost the money for economies of scale while others were hurting," says Robert A. Intel Corp.'s Taiwan manager.

Still, the motherboard sector hasn't lost its luster. Even though Taiwan's sales of motherboards soared 54% last year, the average price plunged from \$176 to \$100. FIC's profit margins are just 3.5%, but analysts predict earnings from mother-



is will be flat this year at around million. "They need to put their asis on more high-growth areas," Andrew Hubert of Masterlink Ses Taiwan.

e such area is notebook PCs, now a jillion industry in Taiwan that is exd to grow by 70% over the next years. By yearend, FIC hopes to ice 20,000 notebooks per month and ne a top supplier to original-equip-manufacturers.

e Wangs' game plan is to be more a supplier of assembled systems. also want to be a mass-volume acer of modules for dozens of com-brands. The goal, says hairman Chien, is to ne one of the most impor-subsystem suppliers in world." This helps ex-the company's buildup nina. FIC makes color tors and motherboards angdong province. By year, it will be produc-up to 150,000 mother-

of other Taiwanese computer makers, who last year imported \$500 million worth of LCDs and \$3 billion worth of DRAMS—mainly from Japan. The strategy is risky. The burden of maintaining vertical integration could force them to charge a premium for their DRAMS and PCs. Moreover, vertical integration didn't help Japanese companies withstand competition from more focused rivals.

But none of those concerns are holding the Wangs back. In November, they paid \$2.3 million to rescue Fremont (Calif.) computer maker Everex Systems from Chapter 11. Everex, which had annual sales of \$433 million at its peak in 1992, was regarded as an innovator in high-end, multiple-user PCs. It also had more than \$2 billion in contracts to supply the U.S. government and the Army. But Everex' heavy spending on research and development and high overhead proved fatal.

The acquisition presents

Wang likes to grill group managers on the prices of everything from refreshments at company functions to toilet paper used at a company-owned hospital. "Every day, he finds some problem," Winston says. "Interference is the word."

Yet Winston has had some success in winning his father's confidence. Last year, he convinced Y.C. that products such as PCBs, chips, and LCDs have a lot in common with Formosa's traditional commodities businesses, where the winners are determined by efficiency and raw-material costs. The electronics business accounted for 9% of Nan Ya's 1993 sales of \$2.36 billion and profits of \$250 million. Over the next two years, sales in the electronics businesses should grow by about 45% and profits by 38%.

**"STRANGLEHOLD."** Under Winston's direction, Nan Ya has begun producing monochrome LCD screens and wants to license the technology to make more advanced thin-film transistor (TFT) color panels. It has budgeted some \$500 million for a wafer fab and signed a technology-transfer agreement with Japan's

Oki Electric Industry Co. The two will produce eight-inch wafers for 16-megabit DRAMS by 1996 and collaborate on the development of next-generation chips.

Future plans depend on the succession to Y.C. Wang. "No matter who takes over, no one will have the same stranglehold," says a Western chemical exec in Taipei. Still, the family has control of most group companies via a maze of cross-holdings. So most analysts assume a Wang—probably Winston—will be in charge.

As a result, Y.C.'s legacy should be felt for decades to come. While his children

were studying in the West, he wrote them long letters filled with advice on everything from lifestyles to managing a chemical plant. As the children plunge into industries where small mistakes can mean huge losses, those lessons will be more valuable than ever. Whether they translate from smoke-belching chemical plants to computer clean rooms could determine whether the Wangs will build Asia's next high-tech dynasty.

*By Pete Engardio, with Margaret Dawson, in Taipei and bureau reports*



CHAIRMAN WANG

## THE WANGS' WORKS

ily and corporate con-children of Taiwanese Y.C. Wang are building ey hope will become a egrated electronics power.

### ANG CHAIRMAN A PLASTICS

BY FAMILY, 10% BY GROUP COMPANIES  
ION

re founder and family patriarch Y.C. tains his control over the Formosa up's petrochemical business.

### G PRESIDENT A CHEMICALS & FIBER

% BY FAMILY, 29% BY GROUP COMPANIES  
ION

in's 75-year-old brother runs r of rayon, nylon, and other ith Y.C.'s son William, 48.

ds and up to 70,000 PCs per month sprawling site near Shanghai. ne Wang approach to PCs follows pattern Y.C. Wang established in uicals—vertical integration, high pro- tion volume, and state-of-the-art auto- on. With their own supply of LCD ls and dynamic random-access mem- chips (DRAMS), the Wangs won't be ed by the chronic shortages and len price hikes that have hampered an's notebook industry. They also et to supply the voracious demand

### CHARLENE WANG & MING CHIEN PRESIDENT & CHAIRMAN

#### FIRST INTERNATIONAL COMPUTER

OWNERSHIP: 55% BY WANG AND CHIEN FAMILIES

SALES: \$600 MILLION

Y.C.'s daughter and son-in-law are steering the world's largest maker of motherboards into new areas such as notebook PCs.

#### FORMOSA INDUSTRIAL COMPUTER

A subsidiary of First International Computer, Formosa Industrial Computer makes multimedia products as well as high-end PCs for industrial uses.

### CHER WANG PRESIDENT

#### EVEREX SYSTEMS

OWNERSHIP: 100% CONTROLLED BY FAMILY AND FIC

SALES: \$150 MILLION

Cher Wang, Y.C.'s 36-year-old daughter, recently took the helm at California company.

### WINSTON WANG SENIOR VICE-PRESIDENT

#### NAN YA PLASTICS

OWNERSHIP: 21% CONTROLLED BY FAMILY, 15% BY GROUP COMPANIES

SALES: \$3.1 BILLION

Y.C.'s 43-year-old son, Winston, has planned Nan Ya's expansion in electronics, from printed-circuit boards to semiconductors and liquid-crystal-display screens.

DATA: FORMOSA PLASTICS GROUP, FIRST INTERNATIONAL COMPUTER INC., BUSINESS WEEK

a test of the new generation's business acumen. Instead of steamrolling the competition in a commodity business, the Wangs will have to prove they can compete in marketing savvy and customer service. Asks Stan Shih, chairman of rival Acer Corp.: "Do they have the corporate culture to respond to rapid changes in technology and for managing people in a dynamic way?"

The answer will largely depend on what kind of imprint the children can make on the group's businesses. Y.C.



Commentary/by Paul Magnusson

## THE DRAG ON THE DOLLAR IS MADE IN JAPAN

It should be the best of times. Inflation is quiescent, employment is rising, and the U.S. economy is chugging smartly along. Yet the currency markets have the jitters: Since the beginning of the year, the dollar has fallen by some 12% against the yen. Could it be the embarrassing Whitewater hearings? The latest failure of trade talks with Japan? Or the rising odds of an invasion of Haiti?

On a day-to-day basis, any of these could push the dollar up or down, making the short-run fluctuations of the currency markets hard to predict or understand. "There is a temptation to attribute dollar swings to whatever is going on that week," says Maurice Obstfeld, an economist at the University of California at Berkeley, "but when the dollar suddenly recovers, what can we make of that? Whitewater and Haiti didn't just go away overnight."

But the long-run decline of the dollar against the yen—35% over the past four years—does have a clear-cut explanation. The key is the massive and persistent U.S. trade deficit with Japan, which has pushed the dollar down relentlessly against the yen. Meanwhile, with the U.S. running trade surpluses with Europe and Latin America, the dollar has risen against an average of the currencies of its trading partners (chart).

**BEST STRATEGY.** Because the value of the dollar against the yen is so closely tied to the \$60 billion U.S.-Japan trade gap, there's little the Federal Reserve can do to prop it up. Without major changes in the trade relationship between the two countries, currency interventions or even interest-rate hikes, measures that Fed Chairman Alan Greenspan has alluded to in his recent testimony before Congress, are doomed to fail.

To keep the dollar from falling further against the yen, Washington's best strategy is to attack the fundamental causes behind Japan's staggering trade surpluses: tax and regulatory policies in that country that encourage abnormally high savings rates, tolerance of private-sector collusion to exclude foreigners, ridiculously high hurdles for foreign investors, and a trade policy that favors producers over consumers.

Meanwhile, the drag on the dollar is increasing. America's sustained current-account deficits helped drive it to world-class debtor status and transferred more than \$600 billion abroad in the 1980s, much of it to Tokyo. So long as the Japanese were recycling their dollars into U.S. office buildings, golf courses, and cattle ranches, that wasn't

much of a problem. But Japan's recession and the collapse of real estate worldwide forced Japanese investors to sell U.S. assets to improve the balance sheets. And an estimated \$8 billion loss for Japanese investors and central bankers in U.S. currency assets has soured them on further purchases. Now, the dollars that Japanese exporters earn are being tossed in the currency markets rather than reinvested in U.S. assets, further depressing the dollar. "That's why the only solution [for a weakening dollar] is to bring down the U.S. trade imbalance," says Lawrence Chimerine, an economist at the Washington-based Economic Strategy Institute.

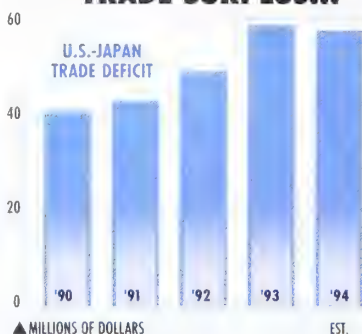
**MAGNIFIED EFFECT.** To be sure, trade is not the only force driving currency values. Only about a quarter of the more than \$1 trillion in daily currency trades can be attributed directly and indirectly to trade in goods and services. Speculation, hedging, and investment account for the rest, which explains why the dollar can gyrate wildly in the short run.

Moreover, with corporations and countries around the world using the dollar as their main trading currency, any downward pressure on the dollar is magnified. "Everyone is worried about the dollar's value because they are using dollars for invoicing and for reserves, and that just makes it more sensitive and volatile," says Michael J. Bordo, an economist at the International Monetary Fund.

The dollar has also been weakened by the behavior of U.S. mutual funds, which are going global in a big way. Spurred by the lure of foreign investment opportunities, capital is flowing out of the country at an estimated \$1 billion to \$12 billion a month, making the U.S. the world's biggest capital exporter—a surprise for a country that has not been able to increase its savings rate. This requires that mountains of dollars be swapped for European and Asian currencies, putting even more downward pressure on the dollar, says Kemper Financial Services Chief Economist David Hale.

If the yawning trade gap with Japan clearly explains the dollar's decline against the yen, what about the dol-

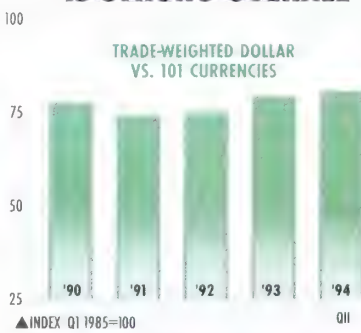
### JAPAN'S PERSISTENT TRADE SURPLUS...



### ...HAS HURT THE DOLLAR VS. THE YEN...



### ...BUT THE GREENBACK IS STRONG OVERALL



DATA: U.S. CENSUS BUREAU, FEDERAL RESERVE BANK OF DALLAS

10% drop vs. the German mark in January or its 8% gain against Mexican peso? Beyond the impact of trade imbalances, economists also look to relative inflation rates, money growth, and interest-rate differentials. For example, the strength of the German mark comes from a stronger-than-expected economic recovery as well as the markets' belief that the Bundesbank will do whatever is necessary to keep inflation in check. Moreover, in the short run, currency traders often respond to expectations about future economic trends rather than present conditions. Along with the Federal Reserve, currency speculators are searching the horizon for signs of impending U.S. inflation, with month after month of relative price stability.

**OF STEP.** The Federal Reserve and other central banks believe that they can influence exchange rates through the size of their currency intervention is minuscule relative to the market. "The foreign exchange market is a herd of steers, and central banks are herd dogs. They bark and lead at the heels of the steers, with the aim of moving the herd in the right direction," explains Harvard University economist Kathryn M. Doguez. It seldom has the desired effect over time, however. After all, a \$3 billion greenback purchase of 17 central banks on June 24 did little to halt the dollar's slow surrender to the yen.

When an exchange rate is not removed by an overwhelming trade imbalance, central banks can indeed affect it—but only by backing up currency intervention with substantial economic-policy moves, such as interest-rate hikes. In 1992, for example, European governments weren't willing to make the economic-policy changes necessary to hold the European system of managed exchange rates together. Central bankers in Britain, France, and Italy stoutly defended their currencies with forceful interventions, but the currencies plummeted nevertheless since the countries' economic policies were out of sync.

So far, Washington has avoided scaling the basic economic forces driving up the trade imbalance with an. True, holding trade talks may yield some marginal concessions that help specific industries. But the Clinton Administration can't let Japan off the hook for the broader economic reasons needed to close the trade gap.

*Paul Magnusson covers economic policy from Washington.*

# Government

NASA

## 2002, A SPACE ODYSSEY—OR JUST PORK PIE IN THE SKY?

NASA has squandered billions—and still no space station

In 1984, President Ronald Reagan promised a new era in space. Within 10 years, he pledged, the U.S. would build an orbiting space station, capable of everything from servicing satellites to providing a staging base for missions to Mars. Freedom—the station's name—would also allow America to wrest bragging rights from the Soviet Union, then the world's space-station leader.

Since then, about the only thing that's off the launch pad is the price. Washington has spent nearly \$12 billion of a projected \$27.5 billion on the project, but only a small fraction of the 500,000 pounds of U.S. hardware has been built. Even if all goes well, the first of many launches needed to loft into orbit the pieces of a redesigned station, renamed Alpha, won't go until late 1997.

What's more, an analysis by BUSINESS WEEK of the money spent so far, shows that less than half of it has bought anything of value for the current design. The rest, say experts inside and outside the National Aeronautics & Space Administration, has been frittered away on a series of wheel-spinning redesigns or as a result of a management structure so convoluted that "they ought to send it up to Harvard business school to give them a good laugh," says a former NASA official.

Some say that even the ill-spent money hasn't been wasted. Supporters in Congress argue that those dollars preserved crucial skills and some 10,000 jobs in the declining aerospace industry. To critics, though, that's just pork by another name. "By and large, the money went to welfare for the aerospace industry," charges physicist Robert L. Park of the University of Maryland.

Beyond the misspent billions, the space station offers a sobering lesson about how difficult it is for the government to pull off major long-term projects. To broaden support for the pro-

gram on Capitol Hill, NASA spread the wealth in as many congressional districts as possible. That meant doling out responsibility for pieces of the project to four installations: Lyndon B. Johnson Space Center in Houston, John F. Kennedy at Cape Canaveral, Fla., George C. Marshall in Huntsville, Ala., and Goddard in Greenbelt, Md. The resulting arrangement was cumbersome and ineffective.

Making matters worse, Congress repeatedly cut funding and asked for major capability changes, forcing costly delays and redesigns. "The overwhelming problem with the space station has been the vacillation of our nation's leadership," says James E. VanLaak, manager of integrated risk management at Johnson. The delays cost NASA up to \$1.6 billion, estimates a top budget officer for the project.

**TRUSS FUNDS.** Trouble has dogged the ambitious Freedom project from the start. The agency realized belatedly that there was no demand for a satellite-

service facility and that a Mars mission was still pie in the sky. NASA also clung to a design in which the labs, crew quarters, and solar panels were attached to an enormous 560-foot girder. This "truss" would have to be assembled in space, a fiendishly difficult and costly task. Not until 1991, under cost-cutting pressure from Congress, did the agency switch to a smaller truss that could be built in sections on the ground. The move saved billions in the long run but ran up the short-term redesign tab.

Not all problems were fixed so easily, thanks to a byzantine management structure. Above the field centers, NASA added layers of management—2,300 people in all—in what experts say was a wrong-headed attempt to cut risk after the 1986 Challenger space shuttle disaster. The price tag just for the extra bodies was \$100 million a year, and they resulted in monumental inefficiencies. To

NASA spread the wealth over many districts, doling out pieces of the project to four installations



get a decision made, "we had to go through a bureaucratic maze," observes John B. Winch, a Boeing vice-president in Huntsville.

Program leaders in Washington didn't have full authority over the centers, either. Thus, important decisions were never made, and "a year of money might be spent on hardware no one wanted," observes VanLaak. Take the complex data-management system put together by McDonnell Douglas' subcontractor, IBM. It never worked the way it was supposed to. But not until NASA's switch to the new Alpha design did the agency pull the plug. The cost of the discarded system: \$500 million.

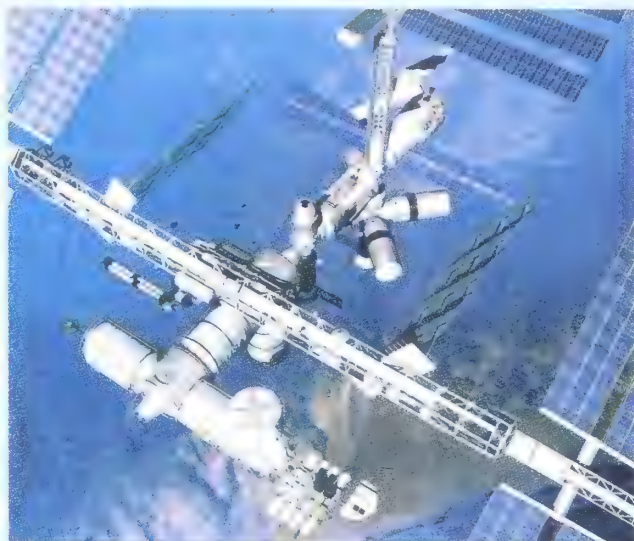
Nor did NASA managers tackle hundreds of other key issues. Performing experiments on materials in the near-

many of the problems. In addition to making extensive use of proven Russian space technology, the agency has switched from three prime contractors to one—Boeing—and moved the NASA management team to Johnson.

**BYE BYE BILLIONS.** The number of NASA engineers and managers has been slashed from 2,300 to 1,000, and they're actually making significant decisions, such as throwing out balky software and deciding to isolate experiments from gravity with an active suspension system. "I've never seen government change so rapidly," says Charles M. Vest, president of Massachusetts Institute of Technology, who headed a panel that scrutinized the program. Once the changes were made, "it's amazing how quickly the project has shaped up," says

Representative Tim Roemer (D-Ill.). Will the future be any different? NASA and the Clinton Administration say yes. They vow to complete Alpha 2002—for another \$17.4 billion (of which about \$1 billion has already been spent). If everything should go perfectly, it's "doable," says Jay W. Chabrow, a former TRW Inc. executive and a member of the Vest panel.

But many within NASA, especially Freedom hands, remain skeptical. They point out that the Alpha program is taking a big risk—by cutting corners instead of building prototypes, testing them exhaustively, and then constructing final flight hardware, for instance. The Alpha team plans to fly many of the first test pieces. In addition, the schedule calls for a complex choreograph-



THE NEW ALPHA DESIGN MAKES USE OF RUSSIAN TECHNOLOGY

## LOST IN PURSUIT OF SPACE

*Of \$11 billion spent on the space station, half may have been ill-spent. Here's where some of the money went:*

|                                                                                                         |                      |
|---------------------------------------------------------------------------------------------------------|----------------------|
| ▶ At least 24 months of delays due to congressional budget-trimming and frequent redesigns              | <b>\$1.6 BILLION</b> |
| ▶ Hefty extra layer of management                                                                       | <b>\$1.1 BILLION</b> |
| ▶ Discarded propulsion and guidance unit                                                                | <b>\$900 MILLION</b> |
| ▶ Failed data management system                                                                         | <b>\$500 MILLION</b> |
| ▶ Redesigning everything from the fire-suppression system to vacuum hoses in the labs and crew quarters | <b>\$400 MILLION</b> |
| ▶ Deleting unnecessary orbiting platforms and robot capability                                          | <b>\$200 MILLION</b> |

DATA: NASA, BUSINESS WEEK

weightlessness of space, for example, requires that the station be virtually vibration free. Freedom's team had plans to keep the hardware "quiet," but "ignored the fact that the crew was running around," says Boeing's Douglas C. Stone, head of integration for the Alpha station.

NASA did acknowledge this and other problems, but "solving them would have required people to admit they were wrong," says Stone. It was so bad that, if Freedom had proceeded, "we wouldn't even be rearranging the deck chairs on the Titanic," says VanLaak, one of the few top Freedom officials to move to Alpha. "We would be showing viewgraphs [overhead slides] of where to put the chairs."

Since last summer, NASA Administrator Daniel S. Goldin and the Clintonites have overhauled the program, fixing

Boeing manufacturing chief James D. Waterman in Huntsville.

But the changes, which have helped to bolster weakening support in Congress, also mean that even more of the money spent to date has been lost. The Alpha design, for instance, will replace with Russian equipment or with new systems the previous propulsion and guidance systems. The money spent so far just on these discarded systems? Nearly \$1 billion.

Some 75% of the old hardware will be used in Alpha. But the pieces are being assembled in new ways. As a result, only about 62% of the money spent on Freedom applies to Alpha. Add together Freedom's problems and the switch to Alpha, and more than \$5 billion has gone toward needless salaries, equipment, and blueprints. "I don't think we've gotten much for our money," says

launches involving space shuttles, Russian rockets, and Europe's still-unfamiliar Ariane 5 to carry up parts for the station. "We don't have all the answers," admits William M. Shepherd, deputy space-station manager at Johnson. "It is a tremendous challenge for the whole team."

Recent changes have given the program a shot in the arm. But if technical glitches again hamper the program, the political consensus, which is now as fragile as it has ever been, could quickly erode. frets a top Capitol Hill aide. That could lead to more of the budget-trimming and congressional meddling that helped cripple the Freedom program. And it would prove, once again, that making good use of taxpayer dollars in high government projects is tougher than the trip to the stars.

*By John Carey in Houston*



## RAB YOUR PARTNERS OR THE WIRELESS BALL

Baby Bells are choosing allies to compete nationwide

isn't just politics that makes for range bedfellows. The race to build national cellular network is also prompting some unexpected alliances. Look at the previously fractious Bells. They're suddenly doing deals with each other at a furious pace—in the last two months there have been at least two mergers between the cellular operations of Pacific Telesis Group and U S West and between those of Bell Atlantic Corp. and Nynex Corp. Ameritech, meanwhile, is talking with everyone from other Bells to long-distance carriers in an effort to expand its cellular network. Why the sudden change? Because the long-balkanized cellular industry is about to face two tough competitors. AT&T's pending takeover of McCaw Cellular Communications Inc. and MCI Communications Inc.'s 17% investment in Nextel Communications will create the one thing wireless customers want most—seamless nationwide coverage. And those networks will have brand names already are household words. **Y QUILT.** Suddenly, wireless is no longer a sure cash cow for the Baby Bells. Each was handed out two cellular licenses in its region in 1984 by the Federal Communications Commission and hasn't been tied much about cooperation. They bought up licenses piecemeal outside their territories, creating a crazy quilt of networks developed across the country with no uniform identities or standards. The result: The Bells charge some \$2 a minute if a rival operator connects a call to their territory. And the same phone doesn't always work in every region. Such an approach won't pass muster in the face of AT&T/McCaw's and MCI/Nextel's national wireless networks. That's why the deals are coming together now. PacTel and U S West had spent two futile years haggling over a way to combine their abutting cellular operations. "Just because it made stra-

tegic sense didn't mean we could get the deal done," says Samuel Ginn, former PacTel chairman.

All that changed in the face of competition. In early July, U S West and AirTouch Communications, PacTel's newly spun-off wireless business, announced merger plans that would create the nation's fourth-largest cellular network, with 1.7 million subscribers. A month

### CALLING ALL WIRELESS DEALS



earlier, Bell Atlantic and Nynex signed a similar deal to form a cellular behemoth serving 1.8 million customers.

Expect more shotgun marriages soon. Doing the deals now will tell the Bells where the gaps in their networks are—and thus where to bid for some 2,000 licenses for new wireless systems called personal communications services (PCS). The licenses will be auctioned off by the FCC in December.

So who's going to dance with whom? To figure it out, check a map for the holes in coverage. Using that approach, Nynex/Bell Atlantic's lucrative Maine-to-Virginia network is the belle of this ball. If BellSouth joined them, coverage would extend deep into the South. U S West/AirTouch, which has no eastern presence except in Atlanta, could also use East Coast access, while Bell Atlantic would like to get into California. "We will be talking to Sprint and U S West/AirTouch over the next 30 to 60 days," says Lawrence T. Babbio, executive vice-president of Bell Atlantic.

**STRATOSPHERIC.** In theory, the Bells could all link up in one seven-way national network and challenge AT&T head-on. In practice, they aren't that much in sync. Many of the Bells already have overlapping cellular properties, so a merger would make little strategic sense. Take

Chicago-based Ameritech Corp. "It would be much more difficult to do something with the AirTouch/U S West group than it would be with Bell Atlantic/Nynex," says Ameritech Chairman Richard C. Notebaert. Ameritech and U S West/AirTouch both have cellular operations in Michigan and Ohio. Has he had discussions with Bell Atlantic/Nynex? "Maybe," he says, adding that the company is talking to a number of potential partners. Notebaert, for instance, is keen on an accord with AT&T/McCaw. "There is no overlap there," he says.

No matter how many pacts are inked, most partnerships will still have coverage gaps. The Bells see PCS as the solution, and alliances are being made to snap up the licenses. But relying on the new service could be dicey. The bidding is sure to be supercompetitive. And if the FCC's first auction in July is any indication—PCS paging licenses raked in \$617 million, more than double the expected take—bids will be stratospheric.

What's more, it could cost \$100 million and up to build PCS systems in a major city. That explains why MCI officials are considering something close to blasphemy: joining with AT&T to build the networks. "That would not be a far-fetched kind of arrangement," says MCI President Gerald H. Taylor. While the two have not talked directly, neither is dismissing the idea. And if AT&T and MCI can do such a deal, any marriage is possible in the wireless world.

By Mark Lewyn in Washington



# THE POWERPC CHIP IS FAST. ITS TAKEOFF ISN'T

So far, PC software and hardware makers are slow to get on board

**W**hen IBM, Apple, and Motorola joined forces in 1991 to break Intel's lucrative hold on the microprocessor market, it seemed they could get the job done. Leveraging the design and manufacturing prowess of Motorola and IBM and the volume purchases that Apple and IBM could guarantee, the triumvirate produced a speedy chip called the PowerPC that they could use themselves and sell to lure other PC and software companies from Intel Corp.'s camp.

For a while it looked like they might succeed in record time. At a combined cost of \$1 billion, the troika has cranked out three blazingly fast chips in the past year, and right on schedule.

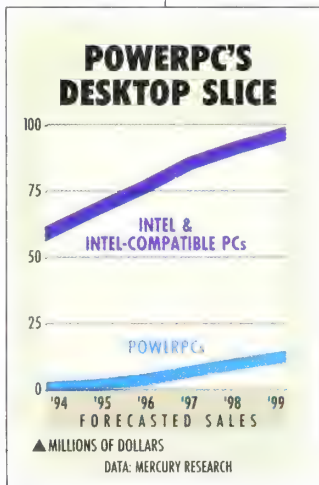
Last July, IBM created a division to make PCs based on the chips and in November teased customers with futuristic prototypes. Apple Computer Inc. boldly promised to transfer its entire line to the new devices, a process that started with its Power Mac line in March. And Motorola Inc. launched a massive ad campaign and loosed swarms of PowerPC "evangelists" on would-be customers around the world. "We had to stir the pot and get people excited," says Motorola Corporate Vice-President Thomas A. Beaver. "That mission's accomplished."

**KICKING IN.** Excited, maybe. Sold—not yet. So far, the PowerPC is barely making a dent in the PC business—and probably won't until popular software abounds. Chip volumes have not yet encroached on Intel's market share. And the conditions for making that happen have not yet materialized. Apple and IBM haven't yet agreed on a common technical design for building desktop computers that could be cranked out in volume. And IBM has yet to unveil its new PCs: After hinting at delivery in June, Big Blue has delayed the introduction to the fall. And Apple hasn't kept its vow to license its Power Mac design, although insiders say deals will be announced by October. So the Pow-

erPC chip has sparked little interest among high-volume PC makers. Says Rod W. Schrock, director of marketing for Compaq Computer Corp.'s PC division: "The migration to PowerPC looks too slow for us to be interested."

Not that the PowerPC chip is bombing. Apple expects to ship 1 million Power Macs by March. And supporters say competition from the PowerPC has helped force Intel to slash Pentium chip prices by 40%. PowerPC is well-suited for a range of promising markets, from engine control to set-top TV boxes to handheld communicators. So customers such as Ford Motor, Scientific-Atlanta, and Canon have established it as a clear—if distant—second to Intel.

In the PC market, however, the alliance is making slower progress. Aside from Apple and IBM, only a handful of second-tier PC makers have committed to create PowerPC desktop systems.



Like Compaq, Dell Computer Corp. has no thanks so far. Six members of the company consortium in Taiwan have models ready to go. But all are waiting for customer interest to rise before starting production.

When will that happen? It's a chicken-and-egg dilemma. Customers wait for standards and an abundant supply of hardware and applications. Software and hardware developers, meanwhile, wait to be sure there is momentum—volume behind a technology before adopting it. And one common spec that would ensure that is missing. Right now, for example, Apple and IBM each use different methods to deal with peripheral devices, such as keyboards and floppy drives. Says Dataquest Inc. analyst John Ball Brown: "I think it [one design] has huge significance, absolutely essential."

Yet even with so much at stake, Apple and IBM have been unable to force a common hardware standard. It's a technical problem, according to Apple. It would be a "significant task" to solve. Now, both companies are downplaying the need for a single design. Says John J. Buckley, president of Apple USA: "I don't think it's an absolute factor in making PowerPC a success."

There may be more to this than meets the eye, though. Insiders say the move has stalled because Apple cannot see the advantage in adopting a common design that would require it to change its operating software again—and waste valuable time in the market. "It's not a technical decision," says an IBM executive. "The question is what do they [Apple] want to do." After all, sales are looking good. Apple's third-quarter per-



**OGGLING POWER MACS: APPLE EXPECTS TO SHIP A HEALTHY 1 MILLION MACHINES BY MARCH**



e to a surprising \$138 million, vs. a \$188 million—mostly a sale of 200,000 higher-margin Macs. Those sales still fell short of Apple's goal of 300,000 units but went a long way to helping the bottom line. Now, Apple isn't planning on one-upping its hardware design, although both sides insist they continue to talk. Apple's focus is on trying to license its admired software to companies including IBM, Motorola, Toshiba, and Olivetti—with restrictions. That would increase revenues and let Apple control the clones and where. But anyway, Apple continues to haggle over licensing terms. And with the new version of Microsoft Corp.'s Windows operating system—code-named Chicago—expected early next year, "the window is closing," says the CEO of a major player that negotiated unsuccessfully for licensing rights for more than a year without losing interest.

**TED.** Of course, IBM could generate more sales by shipping gobs of its lower-PC machines. But that seems unlikely any time soon. And what software would they run? Observers say no software is ready. But IBM may be waiting until its ambitious Workplace Operating System is ready, sometime next year. In theory, Workplace would enable a computer to run programs written for IBM's OS/2 and UNIX operating systems on the same machine. But so far, Workplace only emulates—not duplicates—popular Windows software, a prospect that turns off customers.

But this adds up to a case of arrested development when it comes to software. The 250 programs written for PowerPC are available, but there's little PC software in the works for IBM-based PowerPC computers. With programmers struggling to keep up with demand for Power-based software, "the PowerPC is not relevant to the software market, it's not something we need to spend money on," says J. Paul Grayson, CEO of Graftek Inc. in Dallas.

It's no surprise, say the PowerPC's biggest backers. "This isn't a one-year thing," says Motorola Senior Vice-President Barry Waite, who says the PowerPC will capture at least 20% of a \$30 billion chip market by 1998. Things could turn around earlier—especially if new computers have pizzazz. Analysts say IBM plans to announce two desktop PCs and a laptop—possibly running Microsoft's Windows NT operating system and with 30 programs—in November—but unless more software is available for the PowerPC chip may turn up only in cars than in desktop PCs.

*Peter Burrows in Dallas, with  
John Rebellio in San Francisco and  
Ira Roth in New York*

# Science & Technology

SEMICONDUCTORS

## HUH? CHIPMAKERS COPYING STEELMAKERS?

To cut costs, they're going in for nimble, automated "minifabs"

**T**he semiconductor industry is taking a page from the steel industry of the 1970s? Incredible as it sounds, it may be true. Like integrated steel plants, chip factories tend to be huge and expensive—the \$1 billion wafer-fabrication plant Intel Corp. is building near Albuquerque is an example. In a bid to cut costs, a new breed of smaller "wafer fab" has been quietly emerging in the 1990s, with dramatic implications. "It's exactly like what happened with steel mills," declares Paul P. Castucci, a consultant who headed IBM's chip-making operations in Burlington, Vt., until 1987. "The big steel producers tried to buy economies of scale. But minimills were the way to go." The future of chips, he adds, is in minifabs.

Like their cousins in steel, minifabs are smaller, more automated, more nimble versions of much larger plants. What they lack in scale, they make up for in speed. Today, just 14 of the world's 400-odd chip plants are classed as minifabs. But the concept has strong backing within Sematech Inc., the U.S. chip-equipment consortium, and its European counterpart, the Joint European Submicron Silicon Initiative, as well as within Semiconductor Equipment & Materials International, a trade group of suppliers. All three are working on minifab standards, so look for many more such plants to sprout soon.

Next February, for instance, Zilog Inc. will open a \$200 million minifab near Boise, Idaho, that Chairman Edgar A. Sack says will "be just as efficient as anything Intel has." Even Jack L. Sal-

tich, manager of the \$900 million plant that Advanced Micro Devices Inc. is building in Austin, Tex., figures the current archetype is past its prime. "This round of wafer fabs will be the last of the 'ballroom' generation," he says, where workers dress in bunny suits to waltz silicon wafers around vast, airtight clean rooms.

The reason is cost. Financial analyses suggest that when the price of a wafer fab hits \$2 billion, probably by 1998, even Intel, the world's most profitable chipmaker, will have trouble recouping the investment, says G. Dan Hutcheson, president of market researcher VLSI Research Inc. That would trigger a break in the chip industry's 35-year tradition of offering ever-more-powerful chips at no increase in price.

**DRESS DOWN.** Designers of minifabs hope to avoid that with a radically new approach. In their plants, the production steps that turn silicon disks into hundreds of fingernail-size chips take place inside so-called minienvironments—clean rooms within clean rooms.

The idea is to prevent damage to the wafers from tiny airborne particles by isolating just the wafers, not the workers who produce them. "That makes sense," notes Sack. "Wafers are a lot smaller than people." Air-quality standards elsewhere can be relaxed, so it's good-bye to bunny suits.

Just getting rid of these cumbersome clothes can save \$1.7 million (table, page 98), according to a six-month study sponsored by Fluor Daniel Inc., a Greenville (S.C.) construction engineering firm. It brought together 23 leading suppliers,

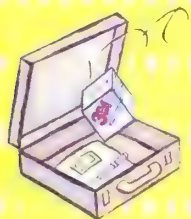


WHAT'S WRONG WITH  
THIS PICTURE: THERE'S  
NO NEED FOR  
WORKERS TO WEAR  
BUNNY SUITS, MINIFAB  
DESIGNERS CONTEND





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## Science & Technology

including Advanced Materials, KLA Instruments, and Silicon Valley Group. Led by Castrucci, they were to map a blueprint for an optimum-size minifab. The \$419 million "strategic future fab" they came up with would produce 15,000 wafers a month, vs. 25,000 for the latest megafabs—and 1,000 to 5,000 wafers a month in many existing minifabs. But in most other respects, this future fab would outdo even a megafab, Castrucci claims.

Rethinking the plant floor and grouping equipment in clusters should cut the time required for wafers to jump through some 200 processing hoops from the present 60-90 days to just 7. That's

ogy development at Fluor Daniel, precedes that many of these concepts: assemble innovations developed by T Instruments Inc. for its microelectronic manufacturing science and technology (MMST) prototype fab (BW—July 4). TI custom-built many of its MMST. We wanted to use commercial equipment." Chief among these are the handling systems developed by A Technologies Inc. in Milpitas, Calif., minifab pioneer. For instance, one of Asyst's standard mechanical interface (SMIF) system is a so-called pod that carries wafers between processing steps in a superclean environment.

### FUTURE FAB

The cost of chip fabrication plants—or "fabs"—is climbing so fast that the may soon be unaffordable. A task force of 23 companies has designed a fab that's cheaper to build and run.

#### THE NEW DESIGN TRIMS INVESTMENT...

| COMPONENT                       | FUTURE FAB   | CONVENTIONAL   |
|---------------------------------|--------------|----------------|
| BUILDING                        | \$46         | \$75           |
| SPECIAL UTILITIES AND EQUIPMENT | 94           | 250            |
| PRODUCTION EQUIPMENT            | 293          | 675            |
| <b>TOTAL (MILLIONS)</b>         | <b>\$433</b> | <b>\$1,000</b> |
| MONTHS TO RECAPTURE INVESTMENT  | 10           | 22-30          |

#### ...AND OPERATING EXPENSES

| COMPONENT                             | FUTURE FAB | CONVENTIONAL |
|---------------------------------------|------------|--------------|
| MONTHLY PRODUCTION RUNS               | 15,000     | 25,000       |
| WORKER UNIFORMS (MILLIONS/YEAR)       | \$0.5      | \$2          |
| PRODUCTION TIME (DAYS)                | 7          | 60-90        |
| WORK-IN-PROGRESS INVENTORY (MILLIONS) | \$0.2      | \$1.2-1.5    |

DATA: FLUOR DANIEL INC., PAUL CASTRUCCI & ASSOCIATES INC.

because wafers wouldn't spend 90% or more of their shop-floor time being shuffled between operations and sitting in queues. "You can get new parts to market sooner," says Castrucci, "while prices are at their peak." Studies have shown that in hotly competitive chip markets, getting to market a few months earlier can produce as much as \$1 billion in additional revenues.

**BUG SQUASHER.** Couple the new layout with a real-time control system—oddly enough, now a rarity in chip plants—and wafers can be processed individually instead of in batches of 25 or more. This would give the minifab greater flexibility for handling small orders or a larger stable of chip designs. Moreover, the control system would have sensors that keep close watch over processing conditions to minimize variations, and this should help the fab wring out the inevitable bugs in new equipment faster. In fact, the Fluor Daniel team estimates that its minifab could reach full commercial production in one year—half the normal time. "The bottom line," says Castrucci, "is that this fab would turn out 60% more shippable chips in the first two years—and earn back its investment in 10 months," instead of the usual two years or more.

William J. Barnett, director of technol-

As a pod moves to the next piece of equipment, it signals the plant's central computer, which automatically programs the next tool with the "recipe" for the wafers in that pod. "There's no more job-floor knob twiddling," says Sack. Zilog, which will use SMIF in its Idaho minifab. Asyst introduced its system in 1984, and IBM has been a major booster. Four IBM fabs use it, as do ones at Intel Corp. and Taiwan Semiconductor Manufacturing Co.

Intel's manufacturing head, Senior Vice-President Gerhard H. Parker, says he's familiar with the minifab idea but doesn't buy it. The real key to cost-making efficiency, he insists, remains high-volume output from megafabs. "Companies like Intel," says Timothy Vogel, engineering project leader for planned \$150 million minifab at NEC Microelectronics Div. in Fort Collins, Colo., "are driven by profit margins that shield them from having to look at new technology." But that may not be true much longer. When circuit lines shrink below 0.25 microns, or 1/400 the width of a human hair, says AMD's Saltich, minifab environments probably will be the only feasible way of keeping the wafers clean. And such wispy circuits may show up in advanced chips by 2000.

By Otis Port in New York



# Developments to Watch

BY EMILY T. SMITH

## IN, THE PRINTER'S PALETTE L HAVE SIX INKS



**F**our-color printing is far from perfect. Certain hues—shades of orange and green, for instance—are impossible to match using the limited palette of inks: cyan, magenta, yellow, and black. Commercial printers of annual reports and other high-quality documents want something truer to life. Enter Pantone Inc. This fall, the Carlstadt (N.J.) company plans to

launch a six-color process that creates colors with much high-fidelity without special tinkering.

Four of the six colors are adjustments of the standard Pantone won't reveal the other two until the announcement. Some presses can't handle six colors, and those that can sometimes reserve the extra inkwells for special effects such as metallic inks. But for printers that can use Pantone's system, it gives you a much broader reproducible gamut of colors. Says Hapet A. Berberian, a senior director at Eastman Kodak Co.'s Color Management Systems unit.

## BUCKYBALLS AND GAS— PRESTO! DIAMOND FILM

Peter M. Gruen is practicing his own kind of alchemy: transforming soot quickly into diamond films. Today, tough diamond films are used sparingly: mainly to coat industrial tools that cut aluminum-silicon alloys—the strong, lightweight materials used in cars. That's because a diamond, a lattice of carbon atoms, is usually produced by a time- and energy-intensive process of stripping hydrogen atoms from carbon-containing methane gas. Inevitably, hydrogen gets up in the film, leading to defects.

To make his films, Gruen, a scientist at Argonne National Laboratory, uses pure soot: buckyballs, which contain 60 carbon atoms arranged in a hollow sphere. Microwaves excite a mixture of vaporized argon gas containing buckyballs. The liberated carbon atoms are then deposited in a thin, hydrogen-free film. The new process can produce films two to four times as fast as earlier methods, slashing production costs up to 50%, says Gruen. That could open up new uses for diamond—like to absorb heat from computer chips or serve as coatings on computer hard drives, for instance. Gruen says two electronics companies are negotiating research deals with Argonne to develop the films.

## S SWITCH DON'T POISON THE PLANET

Most appliances, thermostats, and other gizmos that turn on and off automatically use a switch containing mercury. But such technology is fast becoming a pariah: Mercury is toxic when released into the environment, so some states, including California, Florida, and Minnesota, have banned

new products that contain it, while New Jersey prohibits the disposal of such products.

In timely fashion, Virginia Polytechnic Institute and State University chemistry professors James Rancourt and Larry T. Taylor have developed an environmentally safe replacement switch using a new liquid-gallium-based alloy they invented. The device can even be produced by the same facilities that now manufacture mercury switches. Since the new material is 20 times as conductive as mercury, Rancourt expects to be able to produce switches that perform as well as mercury for about the same price. The Virginia Center for Innovative Technology has licensed the technology to NonMerc, a new company formed to exploit it.

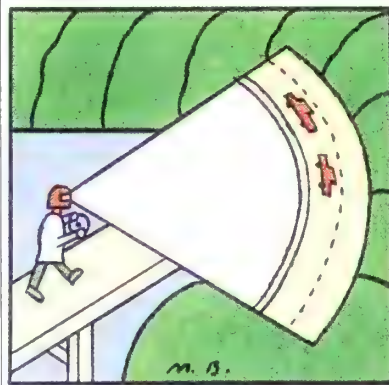
## FIRST THE SPADE, THEN THE BACKHOE, NOW THE 'SOFT TRENCHER'

**D**igging up streets to bury wires and cables is getting more hazardous and expensive. Beneath most cities lies a maze of gas, electric, telephone, water, and sewer lines that often get broken in the process, disrupting services and threatening workers' lives.

Battelle Memorial Institute in Columbus, Ohio, and Concept Engineering Group Inc. in Pittsburgh have found a safer way: They've designed a trench digger that clears away dirt and rock with supersonic blasts of air. Commissioned by the Electric Power Research Institute, the Soft Trencher blasts ditches up to 6 feet wide and 10 feet deep. Pressurized air jets break up soil into particles that can be sucked up by a high-volume vacuum system. Air is filtered and released, and dirt is carried by conveyor belt to waiting dump trucks. The prototype system can dig faster, with fewer disruptions, than the backhoe it's designed to replace. EPRI is looking for manufacturing partners to market the machine to utilities.

## A VIRTUAL GAUNTLET OF HIGHWAY HAZARDS

**T**o answer thorny questions about driving safely, the University of Iowa's Center for Computer-aided Design has developed a souped-up virtual highway. Get behind the wheel on this strip of tar, and you face a variety of road dangers from ice patches to rear-end collisions, complete with squealing tires and roaring engines. The system is more realistic than others because the software incorporates more variables—including staged collisions, different vehicle models, and varying weather. Since the system runs on a Night Hawk real-time computer made by Harris Computer Systems' Fort Lauderdale (Fla.) division, it reacts instantly to the driver's moves.



The roadway will be well traveled: The Centers for Disease Control is funding a study of the driving behavior of Alzheimer's patients. Allergan Medical Optics in Irvine, Calif., wants to know how well patients drive when they are wearing their intraocular lens. And the Federal Highway Administration is evaluating a design for an automated highway.



## PLUGGING INTO THE POWER SURGE ABROAD

For U.S. utilities, emerging markets are where the growth is

In 1992, when Argentina decided to sell state-owned electric generating plants to raise cash, U.S. utility executives rushed to Buenos Aires to get in on the deal. CMS Energy Corp. eventually nabbed part-ownership of a 1,320-megawatt hydroelectric operation on the Limay River for \$65 million. The Dearborn (Mich.) utility also plans to begin building coal- and gas-fired plants in Argentina, India, and the Philippines by yearend. "The growth opportunities in these areas are phenomenal," says Chairman William T. McCormick Jr.

Faced with tougher competition and slow growth at home, CMS and other big U.S. utilities are suddenly investing billions of dollars in international markets. Electricity demand in North America will increase at a low-voltage 1% annually from now until 2020, predicts the World Energy Council (chart). By comparison, the appetite for electricity is surging in Asia, Latin America, and Eastern Europe. In parts of Asia and Latin America, it could grow 5% or more a year. And because competition is

limited so far, investment returns can be double those in the U.S.

The drawback is that risks can be higher, too. For decades, U.S. utilities have operated in stable, heavily regulated markets. As they move overseas, they could get burned by political upheaval or economic crisis, warns Nathan I. Partain, director of equity research at Duff & Phelps in Chicago. "It's just a matter of time," he says.

Utilities won't abandon domestic markets, of course, but deregulation is making life tougher at home. Under a 1992 federal law, utilities must transmit power generated by other companies. Now, proposed rules in California and Michigan would let industrial customers buy the cheapest power and have it delivered to their factories. As a result, utilities are scurrying to cut costs—or find merger partners.

In stark contrast, many emerging nations can't build new plants fast enough to meet demand. India is routinely plagued by brownouts and blackouts. China also can't keep pace with its surging needs: To do so would require adding the equivalent of the U.S.'s entire generating capacity every two years, says Thomas G. Boren, president of Southern Electric International, a subsidiary of Atlanta-based Southern Co. Southern Electric has invested \$300 million in generating projects in Latin America and expects to spend nearly \$1 billion worldwide by the end of the decade. **DEEP POCKETS.** As in Argentina, leapfrogging in many developing countries are reeling that they can't afford to expand their own generating systems, so they're looking to deep-pocketed U.S. European, and Asian partners—and perhaps laying the groundwork for global competition in the utility business.

In July, Ohio-based American Electric Power Co. said it intended to form a joint venture with Northeast China Electric Power Group to build two 1,300-MW coal-fired plants. Britain's Powergen

PLC and Hong Kong's Hopewell Holdings Ltd. are pursuing projects in China, the Philippines, and Pakistan. Overall, there are 578 generating projects under construction or planned in Latin America and Asia alone, estimates RCG/Hagler, Anderson Inc., an Arlington (Va.) consulting firm.

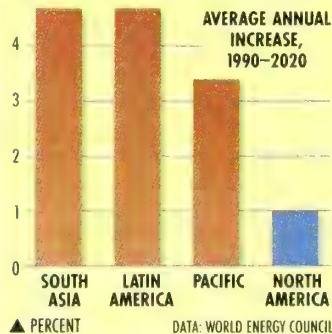
Investors are lining up to finance the plants. Scudder, Stevens & Clark Inc.

New York- and Boston-based investment firm, has set up a \$400 million power project investment fund bankrolled by utilities and the International Finance Corp. (IFC), a World Bank subsidiary. Similar funds have been launched by investor George Soros, GE Capital, and Hong Kong-based Peregrine Investments Holdings Ltd.

To lure foreign investors, government officials in such countries as India are negotiating contracts that guarantee returns on investment of 16%. Elsewhere, potential returns on riskier projects can reach 25%, say utility executives. That compares with rates below 10% on most independent power projects in the U.S. and about 11% from utilities' ongoing operations.

Still, at least one company has been

### WHERE ELECTRICITY DEMAND IS SOARING



MISSION ENERGY IN AUSTRALIA: DESPITE A SETBACK IN MEXICO, IT'S STILL GOING GLOBAL



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burned by rushing into an international project. Mission Energy, a division of SCE Corp. in Los Angeles, last year wrote off \$28 million after canceling plans to acquire from Mexico's national utility part of a coal-fired plant being built in Piedras Negras, Mexico. Mission did extensive engineering work before contract negotiations fell apart over environmental and other concerns. Concedes Mission President Edward R. Muller: "You can spill a lot of money fast and get nothing for it."

Such troubles may take a while to show up. Industry analysts say Houston-based Enron Development Corp. could stumble with a \$2.5 billion gas-fired plant under construction south of Bombay. India's municipal utilities have contracted to pay more for Enron's power than they charge their customers. If local politicians—who traditionally curry favor by subsidizing electricity for farmers and residential customers—don't allow rates to rise, Enron could end up holding the bag. Rebecca P. Mark, chairman of Enron Development, says India's national and state government guarantees protect Enron.

To lower the risks, most projects are being done by consortiums that include prominent local investors and sometimes the IFC, which last year committed \$300 million to a dozen generating plants. Companies hedge against inflation by negotiating contracts that allow them to pass along higher costs. CMS Energy also avoids what it perceives as very high-risk markets, such as China.

**CHINESE CHILL.** Indeed, China embodies all the hopes—and worries—of the rush to electrify the world's developing nations. Earlier this year, Beijing overruled a Goldman, Sachs & Co. scheme to sell investors stakes in power plants in the province of Shandong. The government took objection to the 20% to 40% returns investors could have made, and capped returns at 12%. That had a chilling effect. Hopewell Holding's Gordon Y.S. Wu, who is building his second plant on the mainland, warned Chinese officials that he will sharply scale back his plans to construct 12 more. "I can't jeopardize my investors' and bankers' money for 12%," he says.

Despite the pitfalls of developing-world investing, other U.S. utilities may have little choice but to join the fray. The once sleepy electricity business now seems to be rushing headlong toward freewheeling international competition. Companies that gain a headstart in distant markets now may become the powerhouses of an emerging worldwide utility industry.

By David Woodruff in Detroit, with Pete Engardio in Hong Kong and bureau reports

# Marketing

RETAILING

## SEARS' TURNAROUND IS FOR REAL—FOR NOW

But its growth pace is slowing, and many hurdles still remain

**W**ho was the honoree at the retail industry's annual black-tie dinner at the New York Hilton in May? Sears, Roebuck & Co. Merchandise Group Chief Executive Arthur C. Martinez, of course. After all, since coming on board in September 1992, Martinez has put the long-troubled retail giant back in the black by closing 113 poorly performing stores, abandoning the money-losing catalog, and rebuilding Sears' battered image

stores open a year or more were higher than they were the previous year. That's an impressive gain, but was below the double-digit increases recorded most months since early 1991. Now, with the approach of the Christmas selling season, when Sears is up 40% of its revenue, skeptics are watching closely. "We'll see if he can beat his own numbers," says retail consultant Alan Millstein. "Then we'll see whether it's a fluke or a trend."

For the time being, the signs are good. Last year, the Merchandise Group posted net income of \$752 million on sales of \$26.2 billion, compared with a loss of \$2.98 billion in 1993 (chart). Retail industry analyst Jeffrey M. Fein of Salomon Brothers Inc. says the merchant's earnings are on course to rise 18% this year, to \$888.4 million.

**PARTWAY HOME.** Still, even Martinez is convinced Sears has rebounded yet only says he has more reforms to come, including putting more high-margin brands in the stores, continuing to cut costs, and expanding Sears' women's apparel business. "The turnaround is only 50% complete," Martinez says.

It's easy to see why he thinks it's only partway home. Just 145 stores out of 800 have been renovated so far. In the remaining, sometimes-dilapidated outlets risk turning off shoppers by back by Sears' catchy \$40 million apparel campaign, "The Softer Side of Sears." Female shoppers may also be disappointed because the company is still struggling to sign up well-known women's apparel makers, such as Bernardini Inc. and Koret Inc. And the rivalry is heating up in the middle market. Sears is aiming for: Such discounters as Target Stores are upgrading apparel offerings while such upscale department stores as Marshall Field & Co. are slashing prices.

Martinez must also battle Sears' stodgy culture. The company's buying, he says, remain too friendly with longtime suppliers, allowing them to charge high prices that Sears can't pass along—a sharp contrast to Wal-Mart Stores Inc.'s supplier-crunching buying policy.



with better apparel and a series of jazzy ads. The only tough choice for the dinner's organizers was whether the theme song for Martinez's introduction should be Buster Poindexter's *Hot, Hot, Hot* or Tony Bennett's *The Best is Yet to Come*. Bennett won out.

But making the song come true will be tough. Martinez now must improve on the higher base of performance he helped create rather than on the dismal numbers he inherited. Already the pace has slackened somewhat. In June—the first month not buoyed by the closing of the underperforming stores—sales at



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*—William Shakespeare  
The Merchant of Venice  
—Act IV, Sc. 1*

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*Part of my job is to keep a vague sense of unease percolating through the entire company. The minute you say the job is done, you're dead."*

—ARTHUR MARTINEZ

Service in the stores, while im-  
d, is still below what shoppers  
come to expect from such other  
rs as J.C. Penney Co., say indus-  
try analysts. And Martinez believes suc-  
cess may have lulled some employees  
into a false sense of security. "Part of  
my job is to keep a vague sense of un-  
certainty percolating through the entire com-  
pany," he says. "The minute you say the  
job is done, you're dead."

**UNIVERSITY.** Martinez and his staff  
are working hard to make sure the turn-  
of-the-century takes hold. Buyers, for instance,  
are being sent back to school at the  
company-run "Sears University" to learn  
the art of negotiating. And Martinez  
wants the company to combine its half-  
century-old databases to find out  
what was shopping at Sears. The  
simple answer: The biggest shop-  
per aren't guys in Craftsman tool belts  
or women aged 25 to 50 who buy  
everything from blouses to appliances.  
The apparel is where the retailer  
derives almost 60% of operating profits,  
and Martinez decided to add 30% more

space, or 12 million square feet, to the  
women's clothing departments over the  
next three years. He also decided to ex-  
pand offerings and nudge up prices. In-  
stead of promoting \$29.99 dresses, Sears  
is more likely to push career outfits that  
"go all the way up to \$100," says Robert  
L. Mettler, chief of apparel and home-  
fashions merchandising. Customers are  
responding. At the Sears store in up-  
scale Bloomingdale, Ill.—one of 200  
stores testing women's suits—suits are  
now 7.8% of all dress sales, compared  
with 1.7% for all Sears stores.

But Martinez knows that to get baby  
boomers into the store their parents re-  
vered, he needs big-name brands. Met-  
tler says he has spent the past year  
trying to lure manufacturers of 14 key  
brands. Half, he says, will be in Sears  
by yearend, including Sperry Topsiders  
in shoes and Arrow shirts for men.

It's been a tougher sell with women's  
apparel. Many clothing manufacturers  
aren't convinced of Sears' commitment  
to quality clothing. After all, the retailer  
has changed strategies over a half-dozen

times in the past decade. "Sears has  
come a long way, but their image isn't  
up to department-store standards," sniffs  
an executive at a well-known women's  
apparel maker. "It would be difficult for  
us to sell to them." Worse, rival retailers  
are putting a hammerlock on key  
brands, industry sources say, threatening  
to banish them if they go into Sears.  
For now, suppliers are politely listening  
to Sears' pitch, but few contracts have  
materialized.

**COMPLETE OVERHAUL.** Sears isn't the first  
retailer to run into such resistance. A  
similar cold shoulder spurred Penney to  
initiate its now-successful private-label  
apparel lines, a strategy Sears is also  
pursuing. But it could easily take five  
years for Sears to develop the six pri-  
vate-label lines Martinez envisions. And  
he figures he only has about three years  
before the customer interest stirred up  
by Sears' changes begins to fade.

Martinez isn't relying solely on cloth-  
ing to attract female shoppers. In April,  
Sears said it will develop a new cos-  
metics line, which will be featured in  
200 new cosmetics departments around  
the country by fall 1995. Sears stopped  
selling cosmetics 10 years ago, after cus-  
tomers switched to the flashier cosmetics  
departments at rival stores. This time,  
Sears' cosmetics department will fea-  
ture makeup experts like those found  
in more upscale department chains.

Outside events may also give Marti-  
nez a lift. The merger of R. H. Macy &  
Co. and Federated Department Stores  
Inc. will create a big rival—but it could  
be a boon, too, as Sears scoops up sup-  
pliers and store sites that shake out.  
Sears is interested in acquiring up to  
10 redundant store sites in the New  
York-New Jersey area.

Sears is also making forays back into  
the catalog business. Under the direction  
of John H. Costello, a PepsiCo Inc. mar-  
keting hotshot Martinez recruited last  
year, Sears launched 12 narrowly tar-  
geted catalogs in 1993 offering every-  
thing from workwear for big and tall  
men to camping gear. Costello is also  
testing infomercials. Still, Costello ad-  
mits there's "not a lot of money" for  
such frills; the most important priority is  
Sears' stores.

So far, that's paying dividends. But  
Martinez can't claim all the credit for  
Sears' recent success. While manage-  
ment's attention has been fastened on  
apparel, the appliance and tool business-  
es are going like gangbusters, posting  
sales gains that outstrip apparel's ro-  
bust 15% growth rate. Those parts of  
the store were completely overhauled  
five years ago. If Martinez can replicate  
the results in Sears' softer side, then  
the best may, indeed, be yet to come.

*By Susan Chandler in Chicago*



# YOU'RE DOING THE QUARTERLY GRAB THE EAST COAST THE PROFIT CHART, AND THEN WAIT, DID YOU JUST

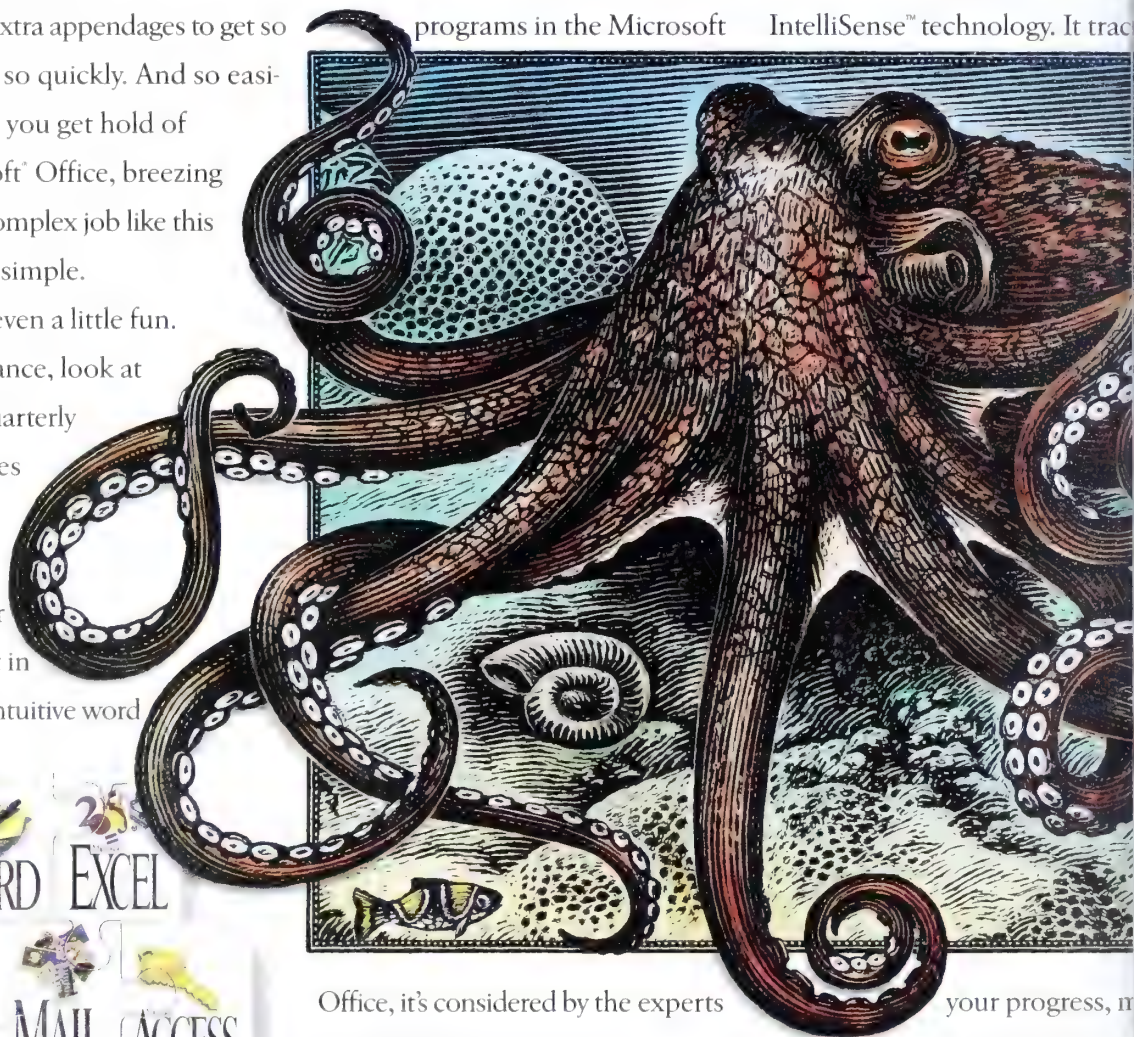
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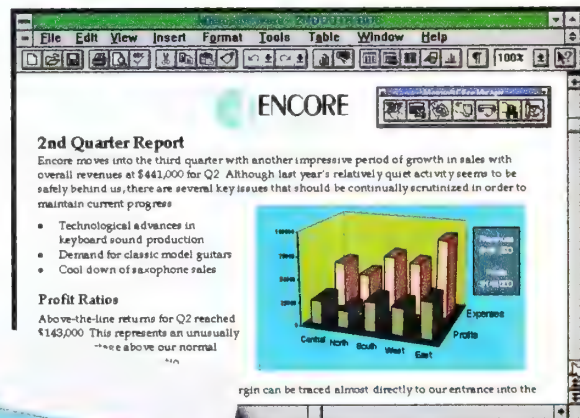
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## DOES YOUR LIFESTYLE DEMAND A LIFESTYLE FUND?

**W**hether you're juggling a hodgepodge of investments or just trying to decide among the offerings in your 401(k) plan, structuring a coherent portfolio can be a burdensome task—especially in today's volatile markets where it's easy to doubt your every move. But the mutual-fund industry has come up with a seemingly simple solution: so-called lifestyle funds. These are portfolios of stocks, bonds, and cash crafted for investors with a specific investment horizon and risk tolerance. You just choose one and let professional managers maintain their ideal mix of assets, making small shifts in response to the economic outlook, interest rates, and the financial markets.

"The industry is offering what it should have sold all along—an actively managed product targeted toward a time line," says Geoffrey Bobroff, of Bobroff Consulting Inc. in East Greenwich, R.I. Too few investors assess risk based on how much time they have until they need the money, he says.

Essentially, lifestyle funds are just permutations of asset allocation funds. They offer simplicity and diversification, which can appeal to time-strapped baby boomers.

But some serious skepticism is in order here. Many of the lifestyle funds are new, with no established track record. Because of their eclectic mix of investment

classes, they are hard to compare with other funds. And their performance recently leaves a lot to be desired. Many were humbled this year when bonds failed to provide insulation from stock market declines.

Investors willing to put in a little more time can create a portfolio tailored more precisely to their needs than this

kind of one-stop shopping can provide. And, even if you are the kind of hands-off investor these funds were made for, by the time you choose among all the new offerings, investing by life stage may not seem so simple.

It's no surprise that the fund industry has been aggressively pushing the funds these days—selling funds

based on performance, tough when almost all sectors of the market are down. Fund companies have found that they can use people's fears of being in the wrong place at the wrong time as a selling tool. "People like the diversification during periods of uncertainty," says Stephen H. Putnam, Putnam Investments' mutual-fund marketing director.

**RIGHT MIX.** The number of asset-allocation mutual funds has doubled in the last two years to more than 100—and more are on the way. Putnam is among the leaders when it launched three "Lifestage" funds (growth, balanced, conservative).

March. Wells Fargo expanded its Stagecoach line to include five "Path" portfolios that actually change their strategy over time—becoming more conservative as investor approaches retirement or some goal. A new family, Coda, down to Retirement Fund of Naperville, Ill., works the same principle. It has two portfolios that will

largely income-producing by the year 2010 or 2020.

This fall, Vanguard will expand its STAR asset allocation fund, composed of a mix of Vanguard funds, into four "Strategy" portfolios—an income and a conservative, moderate and regular growth version. Scudder, which offers the Managed Retirement Trust for 401(k) plans, has just





lengthy application process to offer such funds directly to individuals. T. Rowe is bringing out "Personal Strategy" made up of individual securities. Whether the company initiates among its by risk tolerance (conservative or growth), investment strategy (income or growth), or by the you will start needing the, the key factor to consider is the target asset mix. is quite a bit of variety. For example, among two offerings, BT Investment Fund Long Range Fund or a mix of 55% stocks, bonds, and 10% money funds, while IDS Horizon Long-Term Portfolio is 60% stocks and 5% bonds. Among the best-known funds, T. Rowe Price's Personal Strategy Income Fund is 60% stocks, 40% bonds, and 10% cash, while Fidelity Asset Manager Income is 60% stocks, 30% bonds, and 10% cash. The break fluctuate based on market conditions.

With lifestyle "you could end up having the wrong of asset allocation for our needs," says Arnott, an analyst at Morningstar Inc. If you choose a fund too heavily weighted with income investments, it might not build up a lot of capital over time. It could end up taking more risk than you intended and panicking the loss of principal.

the target mix will tell you everything. You also have to look at the management style and the underlying securities that can be included in the portfolios. Two veterans in this category illustrate disparate approaches: Vanguard Asset Allocation Fund sticks to domestic securities, all treasuries and bonds from the Standard & Poor's 500-stock index.

## SERIOUS SKEPTICISM is in order: Many of these funds are new, and some results recently leave much to be desired

Fidelity Asset Manager can employ riskier foreign and small-capitalization stocks, high-yield bonds, and derivatives.

These funds rely heavily on computer models to devise the right asset mix, but then may use active or passive strategies to select the securities. The new Stagecoach LifePath Funds are run primarily off a model that allocates assets among different indexes. Putnam's Lifestage Funds have one money manager to decide the asset allocation and an investment committee made up of eight fund managers to pick individual securities from

their areas of expertise.

According to Tracey Curvey, Fidelity Investments' vice-president of retail marketing for asset allocation products: "You need to diversify across managers" as well as across asset classes.

Although analyzing track records of lifestyle funds isn't easy, you can get some data on the multi-fund funds by looking at the past performance of the underlying offerings. For the ones run by committee, you can see how the funds the members manage have fared. **WAY OUT.** Keep in mind that these funds have not been performing that well this year: The group as a whole was down 3.04% through July 22. Owning a mix of assets reduces market volatility over time. "But in a bear market caused by the threat of inflation and higher interest rates, bonds won't protect you," says Jay Schabacker, editor of the

newsletter *Mutual Fund Investing* (301 424-3700).

One way out of that dilemma is going overseas. Arnott says that including international securities in your portfolio is a good bet. A study by Massachusetts Financial Services, before it launched the MFS World Asset Allocation Fund, found you could earn the same returns as a diversified domestic fund with 25% less risk by adding international stocks and bonds.

Finally, you should consider available alternatives to lifestyle funds that lack some of their disadvantages, such as "balanced" funds, which usually maintain a constant mix of 60% stocks, 40% fixed-income, and no cash. Balanced funds are relatively easy to compare with one another, and many have excellent track records. And if you want to have a large component of your portfolio in cash, you can simply keep it separate and enjoy the liquidity of money-market funds.

Still, if lifestyle funds hold true to their promise, they could work well as the core of your portfolio. You can add either more aggressive or conservative funds for investment goals with different time horizons, or, as Schabacker recommends, "take a more eclectic approach" during bear markets when neither stocks nor bonds are faring well. Even the most sophisticated investors will enjoy the simplified tax reporting you get when small asset-allocation shifts are made from inside a fund rather than by buying and selling individual securities.

Lifestyle funds will never be No. 1 in the rankings, but for people who are currently investing too conservatively or without a sensible strategy, that's not what matters. At least the new funds can take some of the guesswork out of organizing your portfolio. *Amey Stone*

### NEW FUNDS THAT MAKE ASSET CHOICES FOR YOU

| Fund                                                               | Investment policy                                                                                                                                                                                                                                                                                                                   |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>PUTNAM LIFESTAGE</b><br>GROWTH, BALANCED, CONSERVATIVE          | One manager determines asset allocation. Then, eight fund managers choose securities from their areas of expertise. New in March, the funds each own eight asset classes. Balanced portfolio mix: 65% equities, 35% fixed-income.                                                                                                   |
| <b>STAGECOACH LIFE PATH</b><br>2000, 2010, 2020, 2030, 2040.       | These funds, introduced in March, become more conservative as the investor approaches retirement or some other goal. (The funds are named for the year you'll need the money.) The manager decides asset allocation, but uses index funds for the underlying investments. The 2020 portfolio is now 65% equities, 35% fixed-income. |
| <b>T. ROWE PRICE PERSONAL STRATEGY</b><br>INCOME, BALANCED, GROWTH | These three new funds come with a Personal Strategy Planner to help people define their goals. Unlike T. Rowe Price's Spectrum funds, which are made up of different mutual funds, these are actively managed. Target mix for the growth fund: 80% stocks, 20% bonds.                                                               |
| <b>VANGUARD LIFE STRATEGY</b><br>INCOME AND THREE GROWTH           | Available this fall, offerings are constructed from 10 Vanguard mutual funds: seven equity, two fixed-income, and a money-market fund. The target for the moderate growth option is 60% equities and 40% bonds.                                                                                                                     |

DATA: FUND COMPANIES



## Smart Money

### MAKING THE MOST OF UPBEAT NEWS

**W**hen IBM announced surprisingly good earnings on July 21—almost double analysts' expectations—the stock leaped over six points in one day. Similar upbeat earnings reports are accumulating in industry after industry for the second quarter. Investors should pay close attention to this trend. Since falling interest rates are no longer giving stocks a boost, favorable news about earnings increasingly is becoming the main driver of future appreciation in share price.

Earnings reports are a crucial window on the health of a company, but a more telling indicator for investors is how those earnings compare with Wall Street's predictions. If analysts projected profits at Company A to grow 5%, a 10% gain would be bullish. But the same performance would be a disappointment if analysts had predicted a 20% surge. Studies have demonstrated over the years that investing based on positive earnings surprises can sweeten returns. "It improves your odds," says Melissa Brown, research analyst at Prudential Securities. "There's a higher probability of outperforming the market."

**ROACH RALLIES.** If earnings come in at the expected rate, those expectations will already have been built into the share price and the stock shouldn't move much. But with earnings surprises, there's generally a lag of three to six months—sometimes a year—before the market factors a company's enhanced potential into the stock price. In addition, one earnings surprise tends to lead to another. (This is known as the "cockroach" theory, because you never see

just one.) While 15% of companies follow a positive or negative earnings surprise with the opposite result in the next quarter, 40% go on to repeat the surprise, says Brown. That means even if you didn't snap up the stock after the first surprise, you can still capitalize on the likelihood of the next one.

Some investors don't want to wait for earnings reports. Instead, they try to foresee surprises by tracking how analysts are revising their estimates. If estimates are steadily being adjusted upward, it's a signal to buy, and when they're being lowered, it's a

16% for the year to date. That compares well with the figures for the S&P: 10% and -3.8%, respectively.

Until recently, only brokers and institutional investors had access to ongoing analyst revisions. Now this information can be obtained by individuals as well. Zacks publishes *Analyst Watch*, a biweekly listing of regular earnings estimates and analysts' recommendations (\$249 a year; 800 399-6659). For his subscribers, Zacks also provides a hot line for more

vice-president of market I/B/E/S. For example, on 27, Biogen announced second quarter earnings of 2¢ a share, less than the 12¢ analysts had expected. And the stock rose 15%, to 10. What accounted for gaining the same day, the company announced a new drug to treat multiple sclerosis.

**BIG PICTURE.** Watch the price movement in the

before the earnings are due to announced investors are anticipating news

run up a share early, then pull out right after actual numbers are released. Earnings results may be a surprise, most investors but be wary of quick artists taking profits and dropping the stock price down.

You also have to pay attention to the larger picture. Recent spikes in interest rates slowed a market, some stock prices declined earnings surprises. A positive

surprise may not buoy a company's stock price against a floundering industry. You need to know something about the stock's history. Is it down from its high, or near the top? "A stock cycle like a great party," says Jonathan Schooler, manager of AIM Weingarten fund. "People arrive, have a few drinks, start having fun. More people arrive, but at some point you look at your watch because the pain of tomorrow is longer worth the fun of today." When analysts stop grading their estimates, says, the party is probably over.

Pam E.

### EARNINGS REPORTS: SURPRISE! SURPRISE!

|                                    | Expected<br>2nd Q EPS | Actual<br>EPS | Date of<br>report | Stock price<br>before report | Stock price<br>after report |
|------------------------------------|-----------------------|---------------|-------------------|------------------------------|-----------------------------|
| <b>POSITIVE EARNINGS SURPRISES</b> |                       |               |                   |                              |                             |
| <b>ALCOA</b>                       | \$0.29                | \$0.50        | 7/8               | 75                           | 77%                         |
| <b>APPLE</b>                       | 0.35                  | 0.50          | 7/22              | 28                           | 31                          |
| <b>BANK OF NY</b>                  | 0.82                  | 0.92          | 7/14              | 29                           | 30%                         |
| <b>IBM</b>                         | 0.69                  | 1.14          | 7/21              | 56                           | 62                          |
| <b>MOTOROLA</b>                    | 0.58                  | 0.63          | 7/11              | 45                           | 51                          |
| <b>NEGATIVE EARNINGS SURPRISES</b> |                       |               |                   |                              |                             |
| <b>BETHLEHEM STEEL</b>             | 0.30                  | 0.14          | 7/27              | 22                           | 20%                         |
| <b>BORDEN</b>                      | 0.14                  | 0.08          | 7/27              | 12 1/4                       | 11%                         |
| <b>KEMPER</b>                      | 0.89                  | 0.81          | 7/26              | 61                           | 60                          |

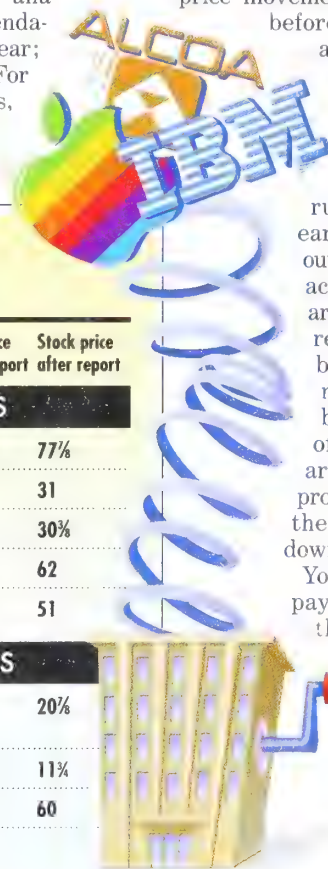
DATA: I/B/E/S INTERNATIONAL INC.

good idea to sell, says Ben Zacks of Zacks Investment Research in Chicago. "In general, you're going to be in the right stocks early and out of the bad ones early."

That strategy has worked well for Zacks. His model portfolio—which is based on changes in the earnings outlook—has returned more than 38.5% a year for the past 15 years, vs. 14.5% for the Standard & Poor's 500-stock index. He has gotten even better results with the \$20 million he manages for high-net-worth individuals and institutions. His returns after management fees were 76% for 1993, and are

frequent updates. Working in conjunction with the CNBC cable-TV network, I/B/E/S International, a financial information company, provides a phone number (900 255-2622) you can call for current revisions and earnings information about any stock. The charge is \$2 per minute.

Of course, like any indicator, earnings surprises have to be read in context. You want to know the story behind the surprise: whether it's a one-time-only factor, such as the sale of an asset, or a fundamental change in the business, such as a corporate restructuring, says Ed Keon,





**We've been known to send some people's garbage  
right back to their house.**

It may come back to light a room, cook your food, or even heat your home. Because all that garbage you threw out actually had a lot of energy in it.

Energy that, once the garbage is in a landfill, is released as methane. Methane is just like natural gas. It's a clean-burning fuel. Good enough to fuel turbines that run power generators. Like the 4,000-kilowatt generators that supply 13,000 people in Geneva, Illinois with electricity. All from the local landfill. Or the generators at the 29 other sites around the country where we capture methane to generate power.

Last year alone, we produced enough energy from methane to save 1.9 million barrels of oil. Not only as electricity, but also as an alternative fuel to actually replace gas, oil, or coal for industry. In 1993, we sold it to customers like a carmaker and a chemical company. All of which makes good use of landfill gas.

It comes from garbage, but it's nice to know it's not going to waste.

*What business do we have saying we help the environment? That is our business.*



**Waste Management**  
A WMX Technologies Company



**N**o one really knows how many kinds of beer Belgians make. Estimates range as high as 800, but even conservative guesses of 400 are impressive for a country of just 10 million people. Raspberry beer, wheat beer, red beer, golden beer, 12%-alcohol beer, beer made with grapes, beer made in abbeys, beer laced with spices, dark Christmas beer—you name it, and Belgium seems to brew it. As Englishman Michael Jackson, who has written extensively on Belgian beer, puts it: "The reverence reserved for wine in most countries is in Belgium accorded to beer."

Some of that reverence is now being imported to the U.S., the new boom market for Belgium's 100 breweries. But in America, don't look for common pilsners, such as Stella Artois or Jupiler, the leading brands in Belgium, where pilsners account for 70% of the sales. Belgian brewers don't like to go head-to-head with such established pilsners as Heineken. But the main reason is that the real hot sellers in New York, Chicago, San Diego, San Francisco, and other U.S. cities are "specialty" Belgian beers—typically \$10 a six-pack.

**ALE AND HEARTY.** If you're happy with Budweiser, Miller, or other watery, mass-produced U.S. pilsners, Belgium's specialty beers may not be for you. But if you see beer as an aperitif, an accompaniment to dessert, an alternative to brandy, or a tasty ingredient in such dishes as steamed mussels and braised beef, Belgium has the beers.

America's appetite for Bel-

## Potables

### A RICH BOUQUET OF BELGIAN BREWS

gian beers has been sparked in part by the rise of U.S. microbreweries and the growing popularity of quality domestic beers such as Samuel Adams, says Don Feinberg, who runs Vanberg & DeWolf in Cooperstown, N.Y., one of a growing number of importers of Belgian beer. Feinberg says his job of selling to dis-

tributors has gotten easier, as Americans have become less rigid in their taste.

the wheat mash through the roof slats, promoting spontaneous fermentation. Straight lambic beers, sold under such names as Belle-Vue, have little or no carbonation and are very dry.

Gueuze, such as Alken-Maes' Mort Subite brand, is a blend of young and old lambics made with two or more



**PILSNER, FOOEY:**  
**MOST BELGIAN**  
**EXPORTS ARE**  
**SPECIALTY BEERS**

tributors has gotten easier, as Americans have become less rigid in their taste.

If you want to take the plunge, a primer on Belgium's leading beer types may help. Lambic is wheat beer, rather than one made from the traditional hops-and-barley recipe. It is fermented in small breweries in the Senne valley just south of Brussels, where airborne wild yeast is allowed to float into

fermentations. Kriek, made by breweries such as Liefmans, is a blended lambic that has had cherries, strawberries, or raspberries added. It's often served in champagne flutes as a before-dinner drink. In fact, each brand uses a special glass, which Belgian bartenders can supply. Rodenbach's Grand Cru red beer takes a stemmed glass like that used for Burgundy. Orval's abbey-

style Trappiste is served in a chunky-style goblet, similar to those used by monks in the Middle Ages.

Faro beer contains or caramel for a "sweet sour" taste. White beer, as Interbrew's Hoegaarden has an aroma like honey, is derived from its combination of wheat, oats, Curaçao orange peels, and coriander. A beer like that made by humans is close to an old English ale. Saisons are low alcohol, orangy beers made in the Wallonia region of Belgium the summer or harvest seasons. Golden ales such as Duvel have an 8.2% alcohol content by volume, so don't be fooled by the pale-gold color. Thinking you're getting just a standard pilsner.

**RAFT OF DRAFT.** For beer lovers who visit Belgium, a must is the museum at the Brewer's House, located on Brussels' famous Grand Place. Less formal and more typical Belgian is the museum where you'll find dozens of brews on tap and sometimes more than 100 in bottles. Brussels' Moederbic (68, rue de Sa)

has 28 draft pumps.

For more information, see some books by Michael Jackson. Importer Feinberg, who would like consumers to see the connection between sophistication of wine and beer, sells about 5,000 copies a year of Jackson's *Great Beers of Belgium* (Coda, Antwerp). Also look for Jackson's *The New Wine Guide to Beer* (\$23; Running Press, Philadelphia). As Feinberg says about Belgian beer: "The more you know, the better it tastes." Patrick

## Worth Noting

■ **FURRY FUTURES.** What will Rover do without you? A free pamphlet, *Providing for Your Pets in the Event of*

*Your Death or Hospitalization*, offers animal lovers advice on designating caretakers and on providing money for pet care in their wills. Call the New York City Bar Assn. (212 382-6695).

■ **CHINA PLAYS.** People hoping to cash in on China's amazing growth can get an overview from *Investment Opportunities in China*, free from Guinness Flight, a London global-funds manager. The re-

port includes a general discussion of the limited direct investment possibilities. Chinese shares as well as equity plays on the Hong Kong Stock Exchange. 800 915-6565.

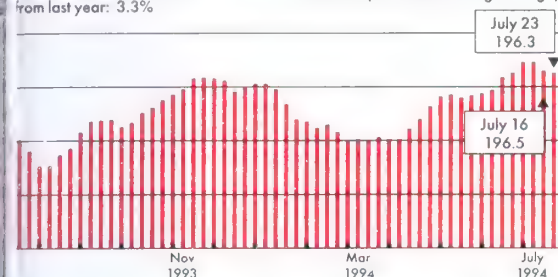


# Business Week Index

## PRODUCTION

Change from last week: -0.1%  
Change from last year: 3.3%

1967=100 (four-week moving average)

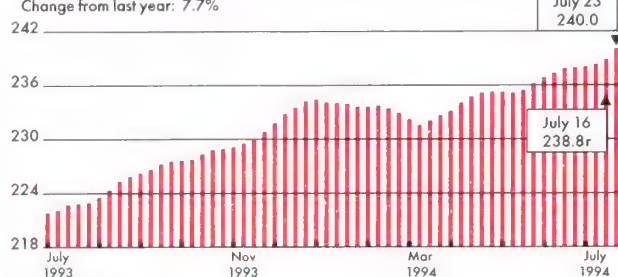


The production index was little changed during the week ended July 23, as auto-plant closings in previous weeks are dragging down the smoothed or the latest week, increases in output levels of autos, trucks, and electric plus rising rail-freight traffic offset declines in steel, crude-oil refining, coal, and paper, and lumber output. As a result, before calculation of the four-week moving average, the index rose to 196.3, from 194.

BW production index copyright 1994 by McGraw-Hill Inc

## LEADING

Change from last week: 0.5%  
Change from last year: 7.7%



The leading index increased during the week ended July 23 on the heels of a stock and bond rally that ended after Federal Reserve Chairman Alan Greenspan's congressional testimony. In addition to higher stock and bond prices, the growth rates for M2 and materials prices rose. Growth in real estate loans was unchanged, and data on business failures were unavailable. Before calculation of the four-week moving average, the index rose to 241.9, from 240.5 revised.

Leading index copyright 1994 by Center for International Business Cycle Research

## PRODUCTION INDICATORS

|                                         | Latest week | Week ago  | % Change year ago |
|-----------------------------------------|-------------|-----------|-------------------|
| 30) thous. of net tons                  | 1,769       | 1,820#    | -3.5              |
| 7/30) units                             | 109,371     | 108,648r# | 54.2              |
| 7/30) units                             | 99,982      | 96,597r#  | 52.4              |
| POWER (7/30) millions of kilowatt-hours | 68,201      | 71,671#   | -2.9              |
| IL REFINING (7/30) thous. of bbl./day   | 14,153      | 14,241#   | 0.8               |
| 23) thous. of net tons                  | 19,374#     | 17,546    | 9.9               |
| ARD (7/23) thous. of tons               | 875.5#      | 879.5r    | 9.2               |
| 2/23) thous. of tons                    | 790.0#      | 790.0     | 0.1               |
| (7/23) millions of ft.                  | 457.9#      | 449.5     | 2.1               |
| IGHT (7/23) billions of ton-miles       | 23.3#       | 21.6      | 10.4              |

American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SPPA, Association in Railroads

## CURRENCY EXCHANGE

|                   | Latest week | Week ago | Year ago |
|-------------------|-------------|----------|----------|
| YEN (8/3)         | 100         | 98       | 104      |
| MARK (8/3)        | 1.58        | 1.58     | 1.71     |
| POUND (8/3)       | 1.54        | 1.53     | 1.50     |
| FRANC (8/3)       | 5.41        | 5.39     | 5.94     |
| U.S. DOLLAR (8/3) | 1.39        | 1.38     | 1.29     |
| FRANC (8/3)       | 1.34        | 1.34     | 1.50     |
| PESO (8/3)        | 3.380       | 3.405    | 3.112    |

Major New York banks. Currencies expressed in units per U.S. dollar, except for British pressed in dollars

## COMMODITIES

|                                              | Latest week | Week ago | % Change year ago |
|----------------------------------------------|-------------|----------|-------------------|
| 3) \$/troy oz.                               | 378.45C     | 388.550  | -6.0              |
| RAP (8/2) #1 heavy, \$/ton                   | 117.50      | 117.50   | -0.8              |
| FFS (8/2) index, 1967=100                    | 213.9       | 213.9    | 2.6               |
| (7/30) c/lb.                                 | 115.7       | 118.1    | 26.7              |
| IM (7/30) c/lb.                              | 71.0        | 73.0     | 26.8              |
| (7/30) #2 hard, \$/bu.                       | 3.53        | 3.52     | 5.1               |
| (7/30) strict low middling 1-1/16 in., c/lb. | 74.18       | 71.86    | 33.0              |

London Wednesday final setting, Chicago market, Knight-Ridder Commodity Research etals Week, Kansas City market, Memphis market

a in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. n Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

## LEADING INDICATORS

|                                            | Latest week | Week ago   | % Change year ago |
|--------------------------------------------|-------------|------------|-------------------|
| STOCK PRICES (7/29) S&P 500                | 454.53      | 453.28     | 1.3               |
| CORPORATE BOND YIELD, Aaa (7/29)           | 8.05%       | 8.06%      | 12.7              |
| INDUSTRIAL MATERIALS PRICES (7/29)         | 104.7       | 105.0      | 10.1              |
| BUSINESS FAILURES (7/22)                   | NA          | 268        | NA                |
| REAL ESTATE LOANS (7/20) billions          | \$432.8     | \$432.4    | 5.0               |
| MONEY SUPPLY, M2 (7/18) billions           | \$3,561.4   | \$3,556.6r | 2.2               |
| INITIAL CLAIMS, UNEMPLOYMENT (7/16) thous. | 390         | 365        | 11.1              |

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

## MONTHLY ECONOMIC INDICATORS

|                                               | Latest month | Month ago  | % Change year ago |
|-----------------------------------------------|--------------|------------|-------------------|
| PERSONAL INCOME (June) annual rate, billions  | \$5,663.9    | \$5,659.0r | 5.6               |
| CONSUMER SPENDING (June) billions             | \$4,602.4    | \$4,585.8r | 5.4               |
| CONSTR. SPENDING (June) annual rate, billions | \$508.0      | \$507.2    | 10.2              |
| 11 LEADING INDICATORS COMPOSITE (June) index  | 101.5        | 101.3r     | 3.5               |

Sources: Commerce Dept., Census Bureau

## MONETARY INDICATORS

|                                      | Latest week | Week ago   | % Change year ago |
|--------------------------------------|-------------|------------|-------------------|
| MONEY SUPPLY, M1 (7/18)              | \$1,153.2   | \$1,150.4r | 6.4               |
| BANKS' BUSINESS LOANS (7/20)         | 298.5       | 296.7r     | 8.5               |
| FREE RESERVES (7/20)                 | 273r        | 922r       | -63.5             |
| NONFINANCIAL COMMERCIAL PAPER (7/20) | 153.6       | 151.8r     | -3.6              |

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

## MONEY MARKET RATES

|                                       | Latest week | Week ago | Year ago |
|---------------------------------------|-------------|----------|----------|
| FEDERAL FUNDS (8/2)                   | 4.21%       | 4.26%    | 3.10%    |
| PRIME (8/3)                           | 7.25        | 7.25     | 6.00     |
| COMMERCIAL PAPER 3-MONTH (8/2)        | 4.69        | 4.72     | 3.22     |
| CERTIFICATES OF DEPOSIT 3-MONTH (8/3) | 4.67        | 4.70     | 3.17     |
| EURODOLLAR 3-MONTH (7/29)             | 4.73        | 4.64     | 3.19     |

Sources: Federal Reserve, First Boston



**YOU'VE JUST MISSED THE FIRST SIGN OF BREAST CANCER IF YOU DIDN'T SEE THAT SMALL DOT IN THE UPPER LEFT HAND CORNER.** Because it can start that small inside your breast. That's why a yearly mammogram is a must, especially if you're over 50. Doctors agree that as you get older, the risk of breast cancer is higher. But with early detection, you increase your chance of successful treatment. Even though you may have missed the first sign of breast cancer, a mammogram won't. For information, please call the American Cancer Society at 1-800-ACS-2345.

**A MAMMOGRAM.  
EARLY DETECTION IS THE  
BEST PROTECTION.**

## Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

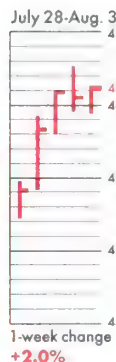
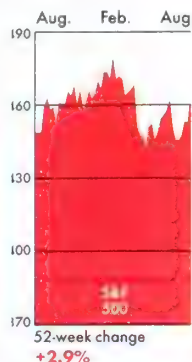
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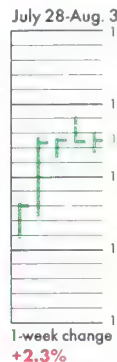
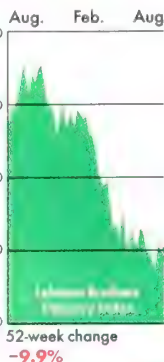
## TARY

ed vigorously in the  
w data showing the  
rowing less rapidly than  
The yield on 30-year  
fell to its lowest level in  
seven weeks. Not sur-  
stocks staged a nifty ad-  
n the Dow industrials up  
70 points for the week  
P 500 gaining even  
percentage basis. Even  
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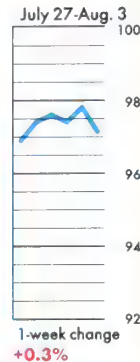
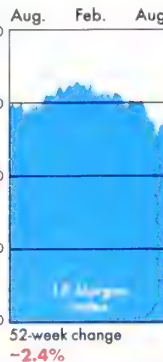
## STOCKS



## BONDS



## THE DOLLAR



## MARKET ANALYSIS

| CKS                         | Latest | % change<br>Week | % change<br>52-week |
|-----------------------------|--------|------------------|---------------------|
| S INDUSTRIALS               | 3792.7 | 1.9              | 6.8                 |
| OMPANIES (S&P MidCap Index) | 171.3  | 2.2              | 1.3                 |
| APANIES (Russell 2000)      | 245.8  | 1.5              | 3.0                 |
| ANIES (Russell 3000)        | 264.4  | 1.9              | 2.1                 |

| STOCKS               | Latest   | % change (local currency)<br>Week | % change<br>52-week |
|----------------------|----------|-----------------------------------|---------------------|
| FINANCIAL TIMES 100) | 3160.4   | 2.5                               | 7.4                 |
| KEI INDEX)           | 20,632.7 | 2.5                               | 0.7                 |
| TSE COMPOSITE)       | 4206.1   | 1.7                               | 5.5                 |

## FUNDAMENTALS

|                              | Latest | Week ago | Year ago |
|------------------------------|--------|----------|----------|
| 90-DAY TREASURY BILL YIELD   | 4.41%  | 4.54%    | 3.15%    |
| 30-YEAR TREASURY BOND YIELD  | 7.38%  | 7.61%    | 6.55%    |
| S&P 500 DIVIDEND YIELD       | 2.73%  | 2.79%    | 2.79%    |
| S&P 500 PRICE/EARNINGS RATIO | 18.8   | 18.7     | 22.8     |

## TECHNICAL INDICATORS

|                                           | Latest | Week ago | Reading  |
|-------------------------------------------|--------|----------|----------|
| S&P 500 200-day moving average            | 460.5  | 460.7    | Positive |
| Stocks above 200-day moving average       | 36.0%  | 32.0%    | Positive |
| Speculative sentiment: Put/call ratio     | 0.36   | 0.43     | Neutral  |
| Insider sentiment: Vickers sell/buy ratio | 0.98   | 1.00     | Positive |

## INDUSTRY GROUPS

BLOOMBERG FINANCIAL MARKETS, BRIDGE INFORMATION SYSTEMS INC.

| INDUSTRY LEADERS | % change<br>1-month | % change<br>12-month | Strongest stock in group | % change<br>1-month | % change<br>12-month | Price  |
|------------------|---------------------|----------------------|--------------------------|---------------------|----------------------|--------|
| FACTURED HOUSING | 19.1                | 13.2                 | FLEETWOOD ENTERPRISES    | 22.7                | 19.6                 | 23 5/8 |
| CONTAINERS       | 14.6                | 37.0                 | STONE CONTAINER          | 21.9                | 130.2                | 18 1/8 |
|                  | 11.7                | 45.2                 | BETHLEHEM STEEL          | 25.2                | 62.9                 | 23 5/8 |
| WHOLESALE        | 11.1                | 6.7                  | McKESSON                 | 34.7                | 111.6                | 98 1/8 |
|                  | 10.2                | 15.7                 | BOISE CASCADE            | 17.0                | 27.5                 | 26 5/8 |

| INDUSTRY LAGGARDS | % change<br>1-month | % change<br>12-month | Weakest stock in group | % change<br>1-month | % change<br>12-month | Price  |
|-------------------|---------------------|----------------------|------------------------|---------------------|----------------------|--------|
| RANTS             | -8.6                | 2.1                  | McDONALD'S             | -9.3                | 4.4                  | 26 7/8 |
| INING             | -5.3                | -18.9                | AMERICAN BARRICK       | -7.8                | -20.6                | 22 1/8 |
| ORTATION SERVICES | -5.0                | 14.7                 | FEDERAL EXPRESS        | -12.2               | 24.4                 | 65 5/8 |
| MENT STORES       | -2.0                | 4.6                  | J.C. PENNEY            | -5.1                | 8.3                  | 49 1/8 |
| S                 | -2.0                | -14.5                | AMR                    | -2.7                | -11.3                | 58 1/8 |

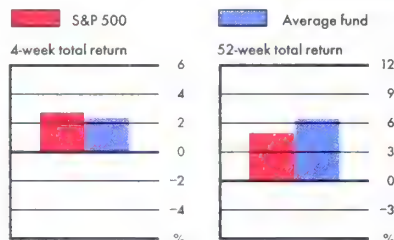
## MUTUAL FUNDS

MORNINGSTAR INC.

| total return             | %    | LAGGARDS               | Four-week total return | % |
|--------------------------|------|------------------------|------------------------|---|
| ON STRATEGIC INVESTMENTS | 13.0 | MONITREND GOLD         | -9.9                   |   |
| GROWTH                   | 12.1 | INVESCO STRATEGIC GOLD | -5.1                   |   |
| AM EMERGING MARKETS      | 10.1 | EXCEL MIDAS GOLD       | -4.8                   |   |

| total return                  | %    | 52-week total return                    | %     |
|-------------------------------|------|-----------------------------------------|-------|
| EMERGING MARKETS INSTL.       | 46.0 | MONITREND GOLD                          | -45.8 |
| R LATIN AMERICA               | 46.0 | KEYSTONE AMERICAN HARTWELL EMERG. GR. A | -23.3 |
| N STANLEY INSTL. ASIAN EQUITY | 45.4 | STEADMAN OCEANOGRAPHIC TECHNOLOGY       | -23.0 |



## RELATIVE PORTFOLIOS

DRI/McGraw-Hill

| Accounts<br>the present<br>\$10,000<br>one year ago<br>portfolio | Foreign stocks     | U.S. stocks        | Money market fund  | Treasury bonds    | Gold              |
|------------------------------------------------------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| es indicate<br>total returns                                     | \$11,951<br>+1.08% | \$10,542<br>+1.61% | \$10,201<br>+0.05% | \$9,789<br>+1.76% | \$9,437<br>-1.61% |

This page is as of market close Wednesday, Aug. 3, 1994, unless otherwise indicated.  
ps include S&P 500 companies only; performance and share prices are as of market close

Aug. 2. Mutual fund returns are as of July 29. Relative portfolios are valued as of Aug. 2. A more detailed  
explanation of this page is available on request. r = revised



## ATTACK THE INCOME GAP AT ITS SOURCE

**G**rowing income inequality in the U.S. is an unfortunate legacy of the tumultuous '80s and '90s. Thanks to a vast array of economic, social, and cultural changes—ranging from the decline of good-paying unskilled jobs to the growth in single-parent families to changes in immigration patterns—the gap between rich and poor is the widest since the Census Bureau started keeping such statistics in 1947 (page 78).

The income gap has widened in the face of a boom in American jobs. In Europe, the impact of global competition and technological change has been blunted by heavy taxation, government redistribution, and mandated high minimum wages. The result? Less income inequality but more unemployment. The U.S. has chosen more flexible labor markets, with lower unemployment but greater inequality.

The widening income gap has economists worrying that it may be hurting growth. They argue that inequality hurts productivity by slowing educational achievement. Lower-income kids drop out of high school three times as often as higher-income children, and only 4% graduate from college, compared to 76% from the ranks of those in the top quarter of income.

What's to be done? The nation already spends more on public education than Japan or Europe, but that doesn't mean the money is well spent. Only reform that makes classrooms exciting arenas for learning can work. And only parental involvement in homework and character-building can boost the abilities, self-esteem, and grades of children.

Government policies that bolster the family can also help reduce inequality. The high school dropout rate for white 12th-graders in single-parent families is 50% higher than for all 12th-graders. These single-parent families earn 40% less than two-parent families. Serious enforcement of child-support laws would shift \$80 billion into single-parent families. Economic incentives for families staying together should be strengthened as well. Higher tax exemptions for children would help two-parent families. So would ending the marriage tax penalty.

The growing inequality has many sources. The means to reverse the trend are available. But is the will?

## AIRWAVE AUCTIONS WORK. NOT ALL AUCTIONS DO

**A**fter decades of handing out virtually free licenses for the nation's airwaves, the federal government has wised up and started charging. The recent auctions of licenses for paging and interactive television raised an unexpected \$833 million, and an auction for personal communications services could net over \$10 billion (page 34).

Airwave auctions are doubly good: They ensure that the value of a slice of the spectrum is captured by the public rather than the winner at a hearing or lottery. They also speed

wireless services to the public by putting licenses directly in the hands of the companies that intend to use them.

Market mechanisms such as auctions won't work everywhere. Auctions, however, should be the rule for all future assignments of airwaves, including any new broadcasting spectrum. Broadcasters and sympathetic politicians want to rig the system of assigning free licenses to insiders and oligarchs with political clout. They argue that choice should not be ruled by financial considerations. That is absurd: People can't buy broadcast licenses by purchasing radio and TV stations.

The situation is more complex for tangible resources. Auctions work fine for oil drilling rights, of course, but market mechanisms have been less successful for rights to emit sulfur dioxide, a cause of acid rain. Here, the government allows polluting companies to trade credits. One problem: People downwind are not happy when an owner chooses to buy pollution credits rather than invest in a cleaner plant.

Entrenched interests also make it hard to reallocate mining, grazing, and lumbering rights. Still, market mechanisms could help. They can hardly do worse than the current systems in which the extractors pay little for their rights.

Market mechanisms such as auctions won't fix every problem in allocating economic rights that derive from government. But they certainly deserve a prominent place in every policymaker's toolbox.

## YOU'RE UP, BASEBALL OWNERS

**A**s Yogi Berra didn't say, "It's *déjà vu* all over again." With baseball owners and players set to shut down the game for the eighth time in as many labor negotiations, the temptation is to say: A pox on both your houses. Yet the owners bear the burden of explanation for this central issue of the dispute.

The problem, of course, is money. Large-market teams such as the New York Yankees and Los Angeles Dodgers rake in tens of millions of dollars from local TV and radio broadcasts. The owners argue that this gives them a leg up in buying the best talent against small-market clubs such as Minnesota and Cleveland. Their solution: a uniform cap on the teams' salary pool, making players more affordable for the less well-endowed clubs (page 26).

The players, not surprisingly, disagree and prefer to continue to let the market set their salaries. They argue there's another answer. The league, they say, currently pools its national TV revenue and shares it. Why not pool the local money into the pot and divide that up, too—the way the National Football League does? That would generate enough funds for all the teams to buy high-priced talent.

Large-market club owners, of course, hate this idea. But it would solve most of the disparity problem, and it would be fairer than asking players to pony up for the financial problems of a half-dozen team owners. The league is a business that depends on the health of 28 clubs to mount a game the public wants to see. If a few units of this business have financial difficulties, it's up to the league, not its employees, to solve

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# MEXICO

## Will Political Change Hurt Economic Reform?

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FERNANDEZ BACKERS: SOME POLLS SHOW AN EVEN SPLIT BETWEEN THE MAIN CANDIDATES, WITH ONE-FIFTH OF VOTERS UNDECIDED

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No turning back in Mexico  
Vigilance from the Fed—not zeal



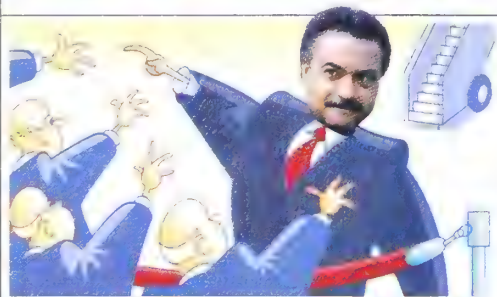
# Up Front

TALK SHOW

Sir, you're worse than the State Department...

—Representative Christopher Shays (R-Conn.) to Federal Reserve Chairman Alan Greenspan, who was trying to explain his evasive style to Congress

EDITED BY JAMES E. ELLIS AND JULIE TILSNER



## NEW WORLD ORDER

### RON BROWN'S CHINESE TREASURE HUNT

Forget the slow boat to China. The hottest ticket to the Far East these days is aboard Commerce Secretary Ron Brown's airborne Orient Express. Traveling on one of President Clinton's personal Air Force jets, Brown plans to depart Aug. 26 for a week-long "commercial diplomacy" mission to Beijing, Shanghai, Guangzhou, and Hong Kong. CEOs of U.S. telecom, infrastructure, and transportation companies—many competing

for contracts that need Chinese government approval—are clamoring for one of the 25 available seats. "It's the hottest trip we've had," says a

Commerce Dept. official. "Everybody wants to go."

The manifest is a virtual who's who of the deal hungry: George Fisher of Kodak, Chrysler's Bob Eaton, Fred Smith of Federal Express, TRW's Joe Gorman, Bernard Schwartz of Loral, and Salomon Brothers' Robert Denham have nabbed seats.

Why? A similar Brown-led mission to Latin America helped seal Raytheon's \$1.4 billion deal with Brazil for an eco-surveillance system for the Amazon. The stakes this time: contracts worth more than \$6 billion for U.S. companies. *Douglas Harbrecht*

## MEDIA MANIA

### EXTRA, EXTRA: MORE PORK FOR NEWSPAPERS

A welfare bill for New York newspapers? It may sound like a bad joke, but the up-to-\$140 million in legal-notice pork that could come from a new business incorporation law recently signed by New York Governor Mario Cuomo should keep

Spurred by *The New York Journal* and other newspapers, the law requires newly established limited liability companies—which receive the preferential treatment of partners while limiting owners' liability, much like corporations—publish legal notices in local New York papers for four weeks. That can total a \$2,000 per LLC in pricey New York City, for example,

since the Cuomo and local accounting groups expect 40 to 70,000 LLCs to be formed statewide in the next five years. New York newspapers can be in for a windfall.

Cuomo's staff argues such extensive notice is needed to inform the public about the identities of per-



CUOMO: Media-friendly, this election year

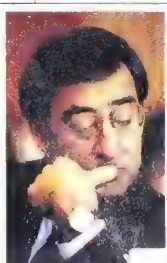
the state's newspapers well fed. And that could be important in an election year when Cuomo, facing stiff Republican opposition, needs all the media friends he can get.

who form companies. Many New York lawyers and accountants contend that rarely read notices are of little benefit—except to newspapers. *Jeffrey Gluck*

## D. C. DENIZENS

### FOR LEON PANETTA, A MINIATURE BUDGET CRISIS

Can it be that Leon Panetta, the former director of the White House Office of Management & Budget, has more trouble managing his own debts than the nation's? Panetta, recently named as President Clinton's Chief of Staff, was dining with his wife, Sylvia, in early August at the popular Old Ebbitt Grill near the White House. But minutes after the ex-OMB director plunked down a credit card to pay for the meal, an embarrassed waiter returned to whisper the bad news: The card had been rejected. Panetta produced another card that went through.



PANETTA: Hard to credit?

Panetta spokesman Barry Toiv says the staff chief's wife was told by the card company that the couple's credit was fine; the restaurant's credit-

verification machine was at fault. "It was a screw-up," insists Toiv, who will not identify the credit firm.

At least Panetta isn't alone. Robert Rubin, director of the White House National Economic Council, had a similar

plastic mishap last winter. American Express Gold Card was rejected when he picked up the check for a dinner with other members of the economic team. Rubin, a multimillionaire, paid with MasterCard. *Owen Ullmann*

## REALITY CHECK

**BILL CLINTON BOASTS** frequently about all the good economic news that has surfaced since he took office—especially glimmers of hope in the high-wage manufacturing sector. And in a particularly up-

beat White House speech on Aug. 2, he noted that while 1.4 million manufacturing jobs were lost during the Bush years, "Now we have 104,000 more than we had on the day I was inaugurated."

**IN REALITY**, Bureau of Labor Statistics data indicate that the number of manufacturing jobs has continued to shrink, from 18,094,000 in January, 1993, when Clinton became President, to 18,038,000 in June, 1994, the latest month available—a drop of 56,000 jobs. It seems that Clinton was using a preliminary estimate for January, 1993, that was too



low and would indeed indicate an uptick. Although those numbers were revised months ago, the President continued to trumpet the old statistics. "Check your in-box, Mr. President," chides Republican National Committee Chairman Haley Barbour. Still, the Clinton loss of peanuts compared with the 3.2 million manufacturing jobs lost since 1979. *Richard S. Dunham*

# Smart Solutions<sup>SM</sup>

NUMBER 11—PRIORITY MAIL



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## PRODUCT PEEK

### FROM RUSSIA WITH BLESSINGS

**D**oes blessed water really taste better? Yes, according to the Russian Orthodox Church. In its first private business deal since the Bolshevik Revolution, the

Kostroma, where the spring is located.

The water is clear, sweet-tasting, and metal free—which alone would make it noteworthy in Russia. But the big selling point is a blessing its spring and bottling plant have received from Russian Patriarch Alexei II. (The water, however, is not used in liturgy.) Besides spiritual benefits, the church enjoys certain business advantages: It can get government approvals faster and isn't hounded by Russia's pervasive organized crime. While the church will not participate in the marketing of the product, it will get a cut of the profits to use for charitable works.

Saint Springs is a big seller among foreigners and hip, newly rich Russians. And King hopes eventually to sell the water to Russian communities in America. Says King, who retired from the plastics industry: "We aim to be the Evian of Russia." *Juliette Rossant*



**WATER FEAST:** Russian Orthodox ceremony

church is marketing Saint Springs, a new bottled mineral water that costs about \$1 for a 1.5-liter bottle. The water project is a joint venture among U.S. businessman John King, Russian bottler Rodniki, and the diocese of

## SLUGFESTS

### THESE BREEDERS HAVE A BONE TO PICK

**T**here's a real dogfight brewing among breeders of Labrador retrievers. And it has gotten nasty enough to land in New York Federal Court. On Aug. 16, breeders of championship stock Labs will make opening arguments

Labs on May 31, effectively disqualifying dogs who fall outside a height range of between 21.5 inches and 24.5 inches at the shoulder. Since a single championship dog can be worth up to \$35,000, claims plaintiff's attorney Richard Gross, that could cost breeders hundreds of thousands of dollars.

Not so, howls the American Kennel Club. As with 39 other breeds, there was always a stiff rating penalty for show Labs that didn't meet height requirements, says AKC spokesman Wayne Cavanaugh. The new, stricter standards were adopted because the Labrador Retriever Club felt breeders were getting sloppy. "The rules have been there forever," says Cavanaugh. "And it wouldn't be a Lab if it were 12 inches high." Woof. □



**LABS: A \$35,000 QUESTION**

in a class action against the American Kennel Club and the Labrador Retriever Club. These standard-setting groups inaugurated strict height requirements for championship

## DRAWN AND QUARTERED



## MIGRATIONS

### SHOULD ROUTE 128 GO INTO A MUSEUM?

**F**or 12 years, Boston's Computer Museum has been a testament to the prowess of such Route 128 pioneers as Digital Equipment and Wang Labs. So it was only fitting that in 1990, its signature exhibit—the 50-foot-high Walk-Through Computer—was funded largely by such East Coast institutions as DEC and Lotus founder Mitch Kapor's family foundation.



**KEY PLAYERS:** Logging in

But a recent fund-raiser drive shows how much the industry has changed since England's heyday. Most funding for \$850,000 of the Through exhibit to be completed in 1995 with gizmos as a titanium chip, work boards, CD-ROMs will come from Californians: rus Logic, Quantum, 3Com. In the only East supporter so far is wood (Mass.)-based Ph Technologies—which is moving to Santa Clara, Calif. Jan. 1. *Gary McWilliams*

## THE BIG PICTURE

### ATTENTION SHOPPERS!

Since pulling ahead of traditional department stores in 1990, discount retailers have widened their lead. Today, their sales amount to about 40% more.

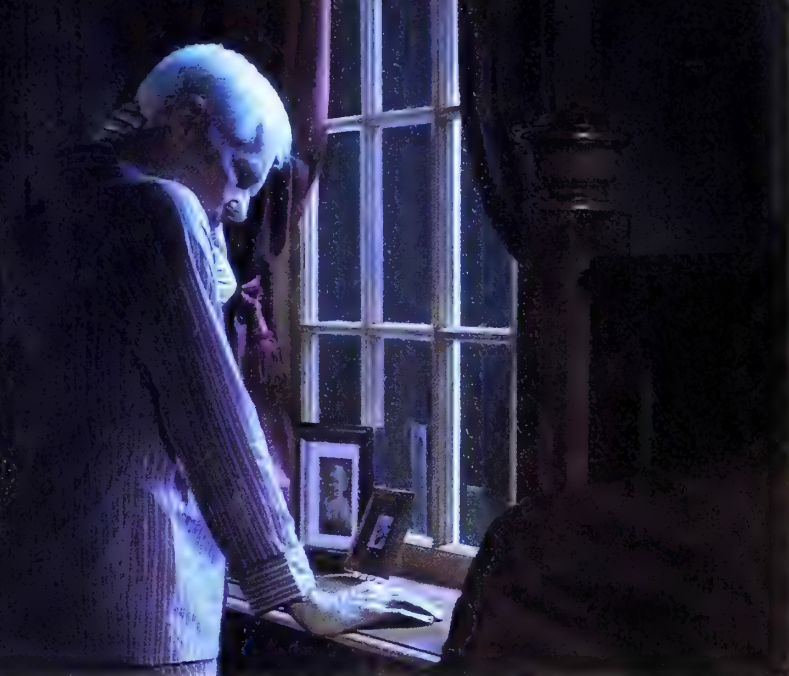


## FOOTNOTES

Biggest markets for U.S.-made French fries, 1993: Japan, \$87 million; Korea, \$10 million; Canada, \$6 million



**"I'm going to the bathroom  
more than ever.  
I wonder what's wrong  
with me."**



Your urinary symptoms may be caused by a condition called benign prostate enlargement or BPH. BPH is not cancer and does not lead to cancer, although the two conditions can exist at the same time. Remember, only a doctor can

evaluate your symptoms and their possible causes.

Do any of these describe you?

Yes No

Do you get up more than once or twice a night to urinate?

☐ Yes ☐ No

Do you often have sudden, uncontrollable urges to urinate?

☐ Yes ☐ No

Do you have a hesitant or slow urine stream?

☐ Yes ☐ No

Do you have a frequent need to urinate?

☐ Yes ☐ No

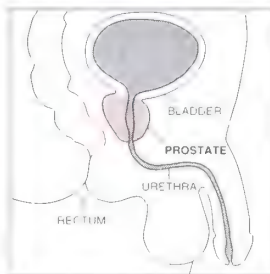
If you answered yes to even one question, tell your doctor.

**Today, symptomatic BPH can be treated by your doctor in several ways.** The options are monitoring the condition with regular checkups, surgery, or oral medicines. One oral medicine is

PROSCAR, the only prescription medicine for the treatment of symptomatic BPH that can shrink the prostate.

PROSCAR works by blocking a hormone that can cause the prostate to enlarge. *But it is important to know: PROSCAR doesn't work for everyone.*

*Although the prostate may shrink, there may not be an improvement in urinary symptoms. However, in clinical studies with PROSCAR, some men have seen an improvement in their urinary symptoms after 2 weeks. Others have found that PROSCAR took up to several months to help them.* Because all men are different, you and your doctor will need to determine how PROSCAR is working for you.



*The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.*

If you have any urinary symptoms, see your family doctor or a urologist soon, and ask about PROSCAR. For free information to help you discuss your symptoms with your doctor, call 1-800-261-5563.

*For the treatment of symptomatic BPH*

**PROSCAR<sup>®</sup> 5mg**  
(FINASTERIDE)

**The only medicine that can shrink the prostate.**

Please see patient information on the next page.



## PATIENT INFORMATION ABOUT PROSCAR® (Prahsc-ar)

Generic name: finasteride (fin-AS-tur-eyed)

### PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.

Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

#### What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

#### Treatment options for BPH

There are three main treatment options for BPH:

- **Program of monitoring or "Watchful Waiting."** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.
- **Medication.** Your doctor may prescribe PROSCAR for BPH. See "What PROSCAR does" below.
- **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

#### What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

#### What you need to know while taking PROSCAR

- **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.
- **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR. Some men taking PROSCAR may have a decrease in the amount of semen released dur-

ing sex. This decrease does not appear to interfere with normal sexual function. Rarely, some men have reported breast swelling and/or tenderness or allergic reactions such as lip swelling and rash.

You should discuss side effects with your doctor before taking PROSCAR® (Finasteride) and any time you think you are having a side effect.

- **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.

- **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.

- **A warning about PROSCAR and pregnancy.**

PROSCAR is for use by MEN only.

PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

**Sexual contact.** Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

**Handling broken tablets.** Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR.

PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted. Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

#### How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT PROSCAR® AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.



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## VALUES: SIZE DOES NOT FIT ALL

Regarding "Managing by values" (Cover Story, Aug. 1), the substance of managing is making decisions, and value what drive our preferences for managing over another. Hence, by definition everyone "manages by values." That makes Bob Haas & Co. unique in the specific values they choose to emphasize. They have decided to run by values other than, for example, widely held—even sacrosanct—value-increasing stockholder value above all else. Instead, Levi's has decided to take a broader perspective and include stockholders when considering how to use value. Thus the bottom line has value as well as a dollar sign on it. While I can see possible reasons for the struggles, I also see a laudable vision and courage worthy of emulation.

Darrell D. Harmon  
Orem, Utah

Now very little about Levi Strauss & Co. and less about Bob Haas, but he is commended for his recognition of how you behave is the truest reflection of what you believe. Anyone with the fortitude to be "flaky" like Mr. Haas is already further down the path of shareholder value than his detractors are to understand.

Brett A. White  
Hartford City, Ind.

What's off to Bob Haas. His actions echo the words of Peter Drucker: "Management has no power—management has only responsibility." In a few, "responsibility" has no meaning if it is guided by personal values. If stock in Haas's company become available on the open market, I'd be happy to buy some.

Hans M. Eckardt  
Newport Beach, Calif.

Levi Strauss & Co. deserves credit for attempting to meld the social responsibility of business with the corporate responsibility. Haas states "...it's a matter of leadership," which, the authors add,

will attract attention and invite criticism. Having recently visited one of Levi's facilities in Central America, I witnessed [that] conflict.

Under the terms for working hours, their corporate brochure states: "While we favor partners who utilize less than 60-hour workweeks, we will not use contractors who, on a regularly scheduled basis, require in excess of a 60-hour week. Employees should be allowed one day off in seven days."

Haas deserves credit for attempting the difficult task of bringing social responsibility to business, especially global business. Is there an equal responsibility to contribute to the stability of the community? Does enforcing child labor laws really benefit the local society when the company leaves in three years?

I cannot really blame Levi's for their decisions, after all, everyone's doing it... just as Levi's moved the manufacture of Dockers offshore to compete on price in the domestic market because that's what the competition did. Leadership is tough work. And it creates many conflicts along the way toward change and betterment. Maybe corporate values haven't changed much, they're just marketed better.

Frank Beurskens  
Bloomington, Ill.

I trust that the slowdown in earnings and revenues for Levi Strauss is due to a boycott by those like me who resent the heavyhanded imposition of the personal nonvalues of Bob Haas on organizations such as the Boy Scouts of America. Through pressure on the United Way of San Francisco, he managed to essentially cut off the Scouts served by it from contributions through that agency. Of course, his nonvalue exercise backfired and the Boy Scouts collected increased contributions from thousands of individuals and business people.

William L. Knecht  
Sandy, Utah

*Editor's note: Levi's no longer funds the Boy Scouts because it says the organization discriminates on the basis of sexual orientation and religion. But the company says the boycott has not affected sales.*

## THE CLEANUP IN CHICAGO IS MOVING PLENTY FAST

Members of the Chicago Board of Trade take exception to "Cleaning up Chicago's pits: Don't stop now" (Finance, Aug. 1). We remain strongly committed to development of an electronic trading card for strengthening our open outcry system of trading. Contrary to the mistaken impression given in the article, such electronic technology is not required under the guidelines of the Futures Trading Practices Act of 1992.

Our current audit trail capability has not been equaled or even attempted by the U.S. securities industry or by our competition in foreign and OTC markets. Testing of recent enhancements to our computerized trade reconstruction system reveals a 92% accuracy rate in timing of trades to the nearest minute. We are working to improve it even further.

However, in our view, a full and immediate deployment of the electronic trading card presumably would produce only a 3% to 4% improvement (assuming that no audit trail ever will be perfect), while generating a cost of countless millions of dollars over our current investment of \$12 million shared with the Chicago Mercantile Exchange. We believe that marginal improvements in market surveillance should not come at a price that potentially could render our markets unable to compete.

We plan on continuing our development of the electronic trading card. However, by asking the Commodity Futures Trading Commission to look favorably on an extension for the full, across-the-board implementation of a card, we seek the latitude necessary to exercise our business judgment in determining the best method of compliance under the requirements of the 1992 Act.

Patrick H. Arbor, Chairman  
Thomas R. Donovan, CEO  
Chicago Board of Trade

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## STOCKS FOR THE LONG RUN: A GUIDE FOR SELECTING MARKETS FOR LONG-TERM GROWTH

By Jeremy J. Siegel  
Irwin • 318pp • \$25

# THE BEST TICKET TO RETIREMENT? STOCKS

**T**here's a certain twinge of guilt that people in their middle years know well. Old enough to have savings but not ready to retire, they've been told over and over that the best way to ensure a prosperous old age is to invest most of their money in the stock market. But few follow this advice: When it comes down to it, the stock market seems too risky, too prone to crashes, just too speculative. That's why many Americans put their hard-earned funds into "safer" but less lucrative fixed-income securities or even money-market funds.

If Jeremy J. Siegel's new book, *Stocks for the Long Run: A Guide to Selecting Markets for Long-Term Growth*, doesn't persuade them to move more of their nest egg into stocks, nothing will. Siegel, a professor of finance at the Wharton

School and academic director of the Securities Industry Institute, makes an utterly convincing case that the stock market not only pays higher returns than the bond market but is also, contrary to what most people believe, less risky over time.

*Stocks for the Long Run* is an uneven mixture of sober economic analysis, hosianna to the stock market, and prosaic introductory investment guide. What makes it stand out is Siegel's analysis of the long-range pluses and minuses of investing in stocks, a subject on which he is one of the world's leading experts. Siegel's position is especially credible because of his historical perspective. While most such analyses date from the 1920s, Siegel has compiled data going back to the early 1800s.

His basic argument: Even though the

stock market is more volatile than the bond market year by year, over every 30-year period since 1871, stocks have done better than bonds. Based on past performance, a 40-year-old who's socked money away for retirement can expect higher returns from the stock market or from a stock-index fund that replicates the behavior of the larger market. Even over any 10-year period, Siegel reports, stocks have outperformed bonds 82% of the time.

Siegel hammers home the point by observing that, adjusted for inflation, stocks have never lost money over a period of 20 years or more. By contrast, there have been several long stretches—most recently from 1961 to 1980—when an investment in Treasury bonds was a losing proposition.

Stocks also have higher payoffs. Writes Siegel: "Over the last century, accumulations in stocks have always outperformed other financial assets for the patient investor." Assuming that dividends and capital gains were reinvested, an investment in the stock market between 1966 and 1992 averaged a 4% annual return after inflation. A similar investment in long-term government bonds yielded a mere 1.6%. Taking tax

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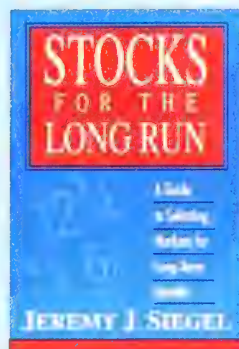
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 hat about a worker who doesn't  
 20 or 30 years before retirement?  
 last chapter of *Stocks for the Long*  
 contains an extremely useful table  
 ing the optimal amount of stock to  
 for different periods of investment

**S**iegel says that  
 stocks not only deliver  
 higher payoffs than  
 bonds but are less  
 risky over time



and different levels of risk tolerance. For example, Siegel calculates that conservative investors with a 10-year time frame should hold 62% of their portfolios in stocks.

Sometimes, Siegel's true-believer tone weakens the impact of his analysis. "The surprising constancy of the historical real return on equity cannot be denied," he writes at one point. "It may reflect economic forces far beyond our usual concepts of capital and investment." This faith in the redemptive powers of stocks

leads him to underesti-  
 mate some problems. For  
 example, his focus on pa-  
 tient investors ignores the  
 dilemma of those who  
 may have to sell holdings  
 to meet immediate finan-  
 cial needs. And he per-  
 haps underplays the pos-  
 sibility that history may  
 not repeat itself.

Moreover, much of the  
 second half of the book,  
 an introductory guide to  
 short-term investment, is  
 a failure. Siegel's expla-  
 nations of the futures  
 markets and the impact  
 of economic events on  
 stocks are stiff and pedes-

trian. Anyone who wants to learn how  
 to pick individual stocks and move mon-  
 ey between markets in the short run  
 should look elsewhere.

Anyone saving for retirement, howev-  
 er—and these days that should be al-  
 most everyone—can learn from *Stocks*  
 for the Long Run. Flawed but ultimately  
 persuasive, the book belongs on every  
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BY MICHAEL J. MANDEL

*Economics Editor Mandel promises to  
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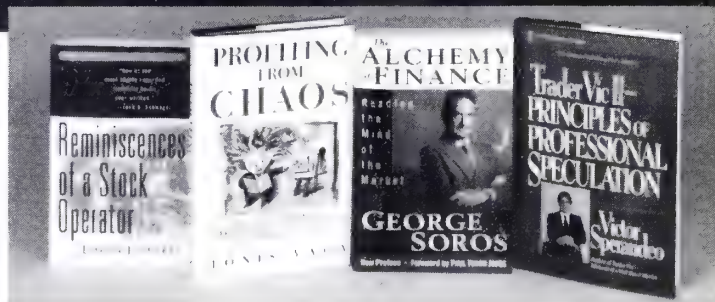
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EDITED BY EDWARD C. BAIG

## SO YOU HATE RATING YOUR WORKERS?

**A**sk most bosses to compile a list of what they like least about their jobs, and writing performance reviews surely ranks up there with handing out pink slips and filing expense reports. Yet good managers recognize the importance of regular appraisals to clue in the troops on how they've been faring and to motivate them to perform better. What's more, written reviews can supply documentation if a fired employee brings a wrongful-dismissal suit.

This explains the recent arrival of three software programs that aim to smooth the way for managers through job-evaluation duties. Review Writer from Avantos Performance Systems, Employee Appraiser from Austin-Hayne, and Performance Now for Windows from KnowledgePoint all mesh with Microsoft Corp.'s Windows and offer advice on how to conduct reviews. Bosses can also use the software to log notes on their people.

**JARGON-RIDDEN.** When supervisors rate employees on a series of performance traits, each program generates written text that can be "pasted" directly onto an evaluation form and printed out. The programs contain word processors that encourage managers to edit portions of the text or to embellish it with examples of the employee's track record. Unfortunately, many of the writing samples were too simple, repetitious, or bogged down in human-resource jargon.

Of the three programs, Review Writer produced the

most stilted text. When rating a salesperson on the broad category of "influencing others," one suggested comment was: "Richard is ineffective at preventing the polarizing of positions during discussions, so he does not ensure that discussions remain objective."

Review Writer's main virtue is that it makes setting



### JOB EVALUATORS

| Program/Publisher                         | List price   |
|-------------------------------------------|--------------|
| <b>EMPLOYEE APPRAISER</b><br>AUSTIN-HAYNE | <b>\$129</b> |
| <b>REVIEW WRITER</b><br>AVANTOS           | <b>\$129</b> |
| <b>PERFORMANCE NOW</b><br>KNOWLEDGEPOINT  | <b>\$169</b> |

up an appraisal relatively easy. First, users choose from a list of predefined templates designed for different jobs such as administrator or clerk. Managers type in goals they would like addressed and select from categories—professionalism, leadership, job knowledge—to be included. Managers grade employees by applying ratings (strongly disagree, strongly agree) to statements that appear.

Employee Appraiser was a bit more difficult to use at the start, but I found most of the program's writing samples far more intelligible. Managers can click on a list of evaluation topics—communication, initiative, planning—that they want to appear on the review. Unlike the other programs, Employee Appraiser doesn't use a rating scale. Instead, statements under the various topics are followed by bullet points, each of which corresponds to a different text block. Managers pick the text they feel best describes the employee. Under the sentence "Keeps up-to-date with new developments," one suggested comment reads: "Cathy usually keeps up-to-date on new developments in her field by reading, attending seminars, and maintaining contacts with colleagues."

Performance Now offered a nice blend of the two programs: more concise writing than Review Writer and easier to use than Employee Appraiser. As with the others, managers can select among predesigned forms or customize their own. One feature: If you give a low grade, a warning box appears urging you to add supporting details in case the ranking is challenged. All three programs include spelling and language checkers that automatically search for "inappropriate" words or phrases that might cause legal hassles. The language checker in Performance Now flagged "pretty."

No matter how successful any of the programs are at motivating managers to prepare evaluations, bosses can't hide behind the computer when it's time to deliver the results. But the programs can help them think about how to offer face-to-face appraisals in a more constructive fashion. Maybe then the whole process won't be so unpleasant after all.

E. C. B.

## BULLETIN BOARD

### HARDWARE

#### SPEEDY ROMs

NEC Corp.'s MultiSpin 4X Pro CD-ROM reader took top honors in a test of some two dozen CD-ROM drives, conducted by NSTL, a division of McGraw-Hill Inc., BUSINESS WEEK's publisher. With so-called data transfer rates of

### TOP-RANKED CD-ROM READERS

| Models                      | List price     |
|-----------------------------|----------------|
| <b>NEC MULTISPIN 4X PRO</b> | <b>\$1,120</b> |
| <b>DEC RRD44-DA</b>         | <b>\$549</b>   |
| <b>LEGACY CD-ROM 2X</b>     | <b>\$579</b>   |
| <b>MIRROR CD-ROM DRIVE</b>  | <b>\$259</b>   |
| <b>PLI CD-ROM MS</b>        | <b>\$749</b>   |

DATA: NATIONAL SOFTWARE TESTING LABORATORIES

600 kilobytes per second, the "quad-speed" unit is four times faster than the single-speed CD-ROM drives that first hit the market and twice as fast as the double-speed drives that are now common. But at a list price of \$1,120, NEC's drive more costly than any other model tested—and more than four times the price of the highly rated double-speed Mirror CD-ROM drive. Still, the fastest drives are already getting affordable. In June, Plethora unveiled the quad-speed 4PLEX line, at \$549 for an internal drive, \$649 for an external version. The new line was not included in NSTL test.

### BOOKS

#### ECO-COMPUTING PRIMERS

Want to be PC with your PC? The Green PC by Steven Aronson and Build Your Own Green PC by Wallace Wang both \$19.95 and published by Windcrest/McGraw-Hill can help. The former book covers such topics as power computing with less electricity and workplace pollution. Wang's book tells you how save energy by assembling your own environmentally correct system.

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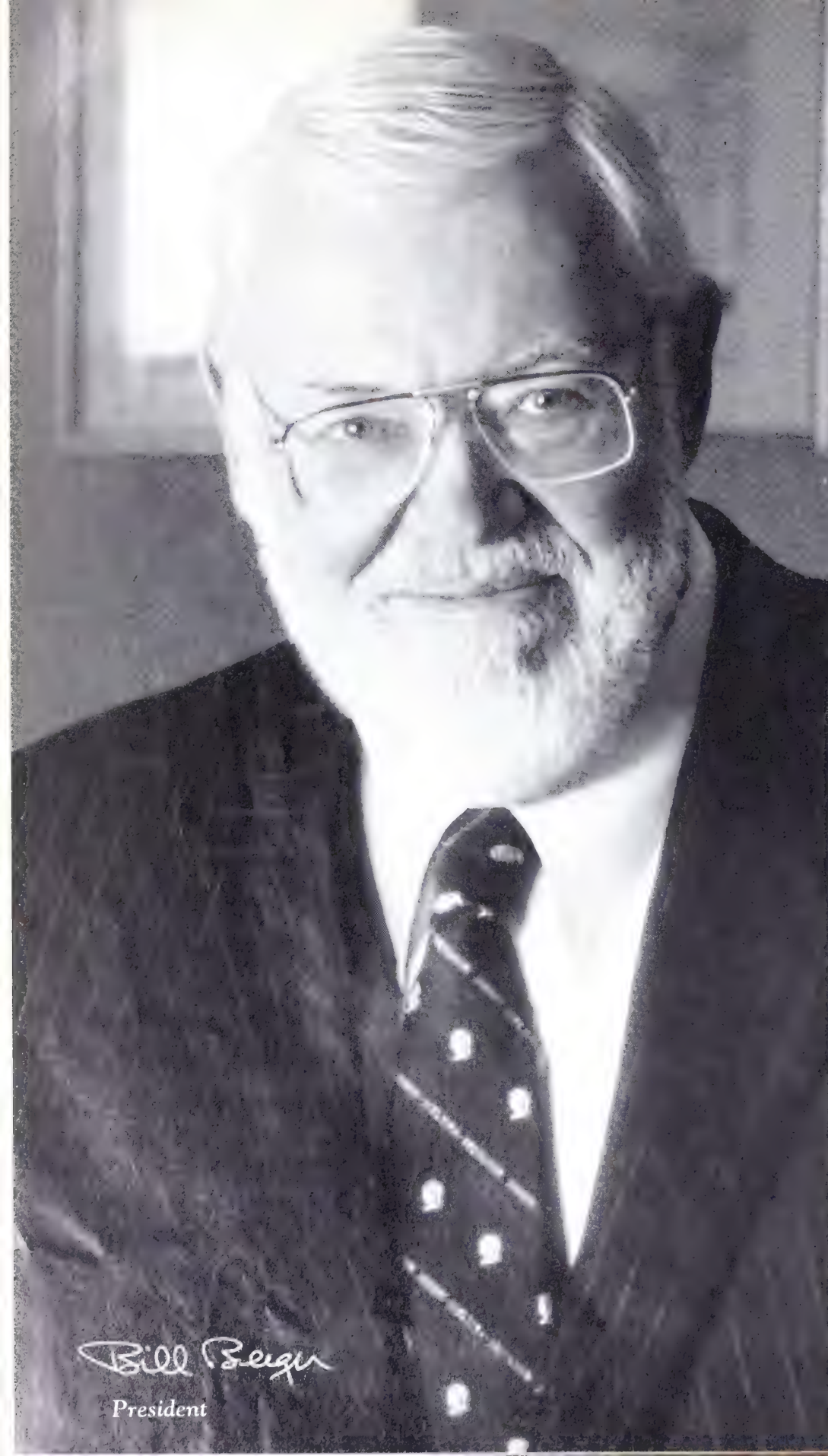
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President

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FOR THE PERIOD ENDING 6/30/94  
& MORNINGSTAR RATINGS\***

| Berger<br>100 Fund                    | Berger<br>101 Fund                |
|---------------------------------------|-----------------------------------|
| 1 Year<br>-4.7% <sup>†</sup>          | 1 Year<br>3.3% <sup>†</sup>       |
| 3 Years<br>17.0%<br>★★★★ <sup>†</sup> | 3 Years<br>17.1%<br>★★★★          |
| 5 Years<br>19.5%<br>★★★★              | 5 Years<br>14.0%<br>★★★★          |
| 10 Years<br>17.5%<br>★★★★             | 10 Years<br>12.7%<br>★★★          |
| 15 Years<br>15.8%                     | 15 Years<br>12.9%                 |
| 19.75 Years <sup>††</sup><br>14.7%    | 19.75 Years <sup>†</sup><br>13.5% |

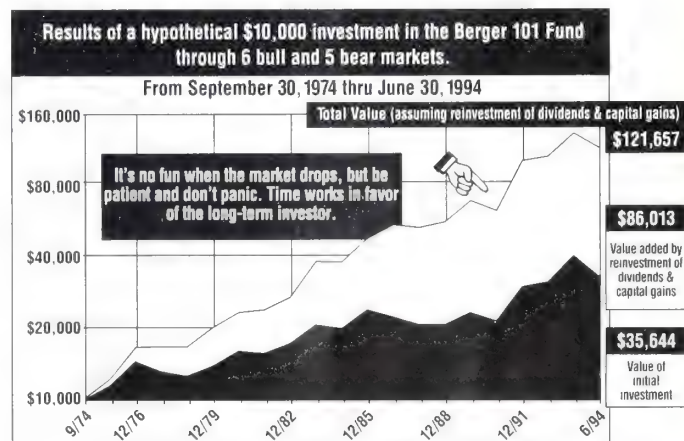
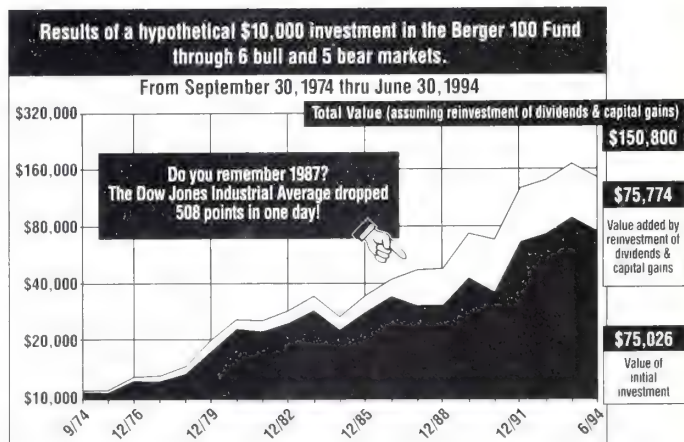
\*Source: Lipper Analytical Services, Inc. †Morningstar proprietary ratings reflect historical risk-adjusted performance as of 6/30/94. The ratings are subject to change every month. Morningstar ratings are calculated from the funds' three-, five- and ten-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee adjustments and a risk factor that reflects fund performance below 90-day T-bill returns. 1,052 equity funds were rated: 10% of the funds in an investment category receive five stars, 22.5% receive four stars and 35% earn three stars. Overall rating is a weighted average of the fund's three-, five- and ten-year ratings. ††Berger Associates assumed management of the Funds 9/30/74.

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The figures in the charts represent past performance and do not guarantee future results. These performance figures include changes in share price and reinvestment of dividends and capital gains, which will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. The figures include the deduction of 12b-1 fees beginning in June 1990.



## HOW THE FED CAN TAME THE SAVAGE CURRENCY MARKETS

BY RUDI DORNBUSCH



It should publicly announce inflation targets of, say, 1% to 3%, and tirelessly pursue them. Then the chief reason for wild currency swings—worry about inflation and the Fed's ability to stop it—will vanish

In 1944, the financial leadership of the free world met in Bretton Woods, N.H., to map out a postwar financial system. In the 1930s, the world economy had disintegrated, and the postwar world needed a structure to keep trade routes open. The experts sought to create new institutions that would prevent currency instability, competitive devaluations, tariffs, and quotas. They wanted to fix exchange rates and realign them only in case of "fundamental disequilibrium."

In large part, they succeeded. After World War II, international trade expanded faster than world production. Vanquished Germany and Japan made strong economic comebacks. Despite day-to-day trade frictions, the world moved from a closed system to an open one.

Bretton Woods is given much of the credit, but in fact it had little to do with it: Most of the credit goes to the U.S. Starting with the Reciprocal Trade Agreements Act of 1934, the U.S. reversed protectionism at home and fostered free trade abroad.

The Bretton Woods world of fixed rates was never as idyllic as many would have us believe. Many currencies remained inconvertible for years after the war. Exchange-control laws prevailed, and bureaucrats decided on specific currency transactions. In Britain, that awkward state of affairs continued right up till Margaret Thatcher became Prime Minister in 1979. In Japan, it lasted into the 1980s.

Exchange rates were never completely fixed, either. Realignments constantly took place. Currency crises were routine, centering around a strong German mark, an anemic British pound, a shaky French franc, and an overstretched U.S. dollar.

**PRAGMATIC POLICY.** The system of make-believe fixed rates crashed in the early 1970s, when the U.S. found it inconvenient to run its economy by standards the Bundesbank set for Germany. A major devaluation of the dollar showed the greenback had been overvalued for years, hurting U.S. growth.

The floating-rate world since then has been no Camelot, either. This was especially true in the 1980s, when a misguided U.S. Treasury turned dogmatic, practicing a hands-off approach to the dollar in the currency markets. In the midst of superhigh interest rates during the Volcker recession, the dollar soared, reaching a glorious overvaluation of 30% to 50%.

Compared with the 1980s, we now have a pragmatic policy. There is plenty of "dirty floating," with governments intervening in the markets. Whatever the dreams of the Bretton Woods romanticists, governments are determined not to make the mistake again of lock-

ing their currencies in place, only to have them become targets of speculative attack.

It's true that the volatility of the market rate is almost three times as high as current floating rates as in the fixed-rate period. But what are the consequences? One is that flexible rates have given countries the ability to follow an independent policy geared to domestic needs rather than to the demands of the currency markets.

**NO RETURN.** Yet this pro-growth policy brings with it an inherent inflationary bias. Those who would return to a fixed-rate system feel that linking a country to more responsible central banks abroad would limit the tendency and reduce instability in the financial markets. Unfortunately, there can be no return to Bretton Woods systems: The Bundesbank will not accept monetary policy set by the U.S., and the U.S. will not accept a Bundesbank managed straitjacket on its economy. So, better or worse, fixed rates are a nonstarter.

Of course, there is the experience of the European Monetary System (EMS). As soon as European countries fixed their currencies to the German mark, they began to let the Bundesbank run their monetary policies. Countries gained on the inflation front, but Britain, Italy, and Spain saw their currencies collapse in a speculative free-for-all. The only nations sticking with fixed rates were the true believers in the Buba policy. Even so, exchange-rate margins have since been widened for EMS countries.

Yet the question remains: Why not announce target zones for major-currency relationships—such as dollar-to-mark or dollar-to-yen—to generate more predictability? The answer is that, unless there is tight monetary coordination, such a system is just prone to attack as a rigidly fixed system.

A better strategy is to let the Federal Reserve publicly announce an inflation target for the coming years—of 1% to 3%. Let Congress monitor it and have the Fed vigorously pursue policies that achieve it. In time, the target will be accepted by markets around the world. Then the chief reason for wild currency swings—worry about inflation and the Fed's ability to stop it—will disappear.

The international monetary system matters. The best combines the advantages of exchange-rate flexibility with firm inflation targeting. There are great benefits to predicting low inflation. Currency stability is one. But it won't be satisfied because currencies will still move. But large and disruptive swings will mostly be gone. And if, on occasion, governments intervene in foreign exchange markets to help cool them off, so what?

RUDI DORNBUSCH IS PROFESSOR OF ECONOMICS AT MASSACHUSETTS INSTITUTE OF TECHNOLOGY

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BY GENE KORETZ

## SUPPLY GLITCHES ARE STALLING U.S. CAR SALES...

Judging by the latest motor-vehicle sales numbers, the rise in interest rates is dampening what until recently appeared to be a booming U.S. market. Car and light-truck sales sank in July to a 13.9 million-unit annual rate, from 14.8 million in June and 15.6 million in the first quarter. And third-quarter production schedules have been scaled back.

Nonetheless, a number of industry observers believe the slowdown is primarily the result of supply-side problems. "Auto sales are being held back by supply constraints, not by weak demand," says economist Diane C. Swonk of First National Bank of Chicago.

Swonk notes that new-car-buying plans in the Conference Board's July survey hit their highest level in several

improve quality and deferred the addition of third production shifts.

The upshot has been inadequate vehicle supplies. The Federal Reserve Bank of Chicago, for example, estimates that a lack of inventories sliced about 400,000 vehicles from seasonally adjusted selling rates in May and June. And auto analyst Jack Kirnan of Salomon Brothers Inc. counts 40 models of cars and light trucks that had less than 50 days' supply at the end of June. "It's no coincidence that almost all of these models suffered sales drops in July," he says, noting that fleet sales to auto-rental companies have also been unusually depressed.

If Swonk and Kirnan are right, new-car sales should accelerate sharply by the fourth quarter as supply problems are finally ironed out. And auto output, which will make no contribution to economic growth this quarter, should help catalyze the economy again.

## ... BUT THANKS IN PART TO NAFTA, EXPORTS RACE AHEAD

If America's auto makers can solve their production problems, it should make more than their domestic customers happy. Economist William T. Wilson of Detroit's Comerica Bank points out that demand for U.S. vehicles in foreign countries has been soaring recently.

Motor vehicles and parts, notes Wilson, now account for over 11% of U.S. merchandise exports and are approaching 1% of gross domestic product. This year, exports of vehicles built in the U.S. and Canada by U.S. and Japanese companies are expected to total 529,000—up nearly 50% from 1993.

Thanks to the North American Free Trade Agreement, Mexico has become the U.S. carmakers' fastest-growing market. "During the first quarter of this year," says Wilson, "the Big Three exported twice as many cars and trucks to Mexico as they did in all of 1993."

## FREEING UP EUROPE'S RIGID LABOR MARKETS IS A TRICKY BUSINESS

The standard prescription to cure the high unemployment afflicting Europe is to loosen its highly restricted labor markets by making it easier and less costly to hire and fire new workers. Such a change would presumably encourage job creation and weaken the bargaining power of entrenched employ-

ees—eventually resulting in more competitive wages that make possible greater employment growth.

Sometimes, however, the cure worsens the disease. In the latest issue of *Economic Policy*, economists Samuel Berlila and Juan Dolado examine the impact of a law passed in Spain in 1984 that significantly eased regulations on the hiring of workers for temporary periods. The law apparently improved labor-market flexibility in several respects. About a third of all workers now hold temporary jobs. Employment has become more variable over the business cycle and labor-market turnover has increased. But researchers found that instead of dampening the wage growth of the ranks of permanent employees, the law actually tended to enhance it.

The apparent explanation is that permanent employees felt freer to bargain for wage increases because they knew that any dismissals caused by their demands would affect temporary workers first. An analysis showed that the interests of highly paid permanent workers weighed far more heavily in labor contracts than those of their lower-paid temporary co-workers.

Such findings don't mean that reforming Europe's constricted labor markets is a bad idea. But they do suggest that reform measures need careful planning and can sometimes backfire.

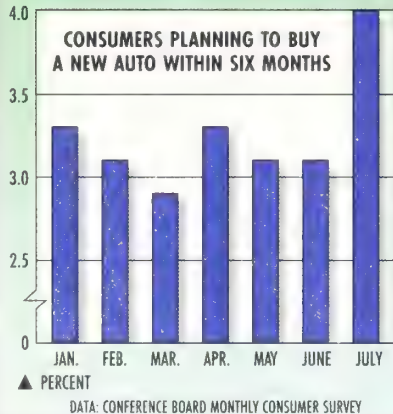
## DOWNSIZING SLOWS, BUT THE SHEEPSKIN SET IS STILL SCRAMBLING

The economic expansion may finally be starting to provide some breathing space for U.S. workers fearful of being axed in corporate restructuring, but it hasn't yet improved the prospects for new college graduates.

Challenger, Gray & Christmas Inc., an outplacement consulting firm, reports that layoff announcements by major corporations in July totaled only 19,146 jobs, 45% less than in June and the lowest tally in 14 months.

Meanwhile, Michigan State University's Collegiate Employment Research Institute has updated its December survey of employers' hiring plans. The latest tally shows that hiring of new college grads in the 1993-94 academic year just ended was up 2.2% over 1992. While this is better than the 1.1% projected in December, it's still a meager increase after four years of decline—particularly since nearly one-fifth of the best crop of grads were hired for temporary or contractual positions.

### DEMAND FOR NEW CARS IS IN HIGH GEAR



years (chart), as did plans to buy used cars. At the same time, interest rates on new-car loans have risen less than half a percentage point since February. Prices of domestically produced new cars are up only 3½% or so over the past year, compared with as much as 10% for imports. And used-car prices, which affect new-car sales via trade-in values, have been rising at a double-digit clip.

Meanwhile, the Big Three auto makers have had persistent problems implementing the largest number of major model changeovers in the industry's history. General Motors Corp. is having difficulties converting unused auto capacity to light-truck capacity, as workers at idled plants refuse to relocate. Chrysler Corp. has slowed production lines to



## LABOR MARKETS HIT A SLOW BOIL, BUT INFLATION KEEPS ITS COOL

ig Steel wants a 10% price increase. Chrysler Corp. is marking up the stickers on its minivans by 9%. Even a double tall cappuccino at your favorite coffee shop is getting pricier. Sounds as if inflation is bottoming out and has nowhere to go but up, right? So fast. To be sure, it's that time in the business cycle when rising demand and costs begin to push up prices. The strong July employment report and another hefty increase in consumer debt in June were the latest signs of a little upward creep in inflation, from about 2.5% recently, seems likely during the coming year, if only because this year's 40% jump in oil prices will lift the cost of heating and heating your home this winter.

### WHO'S HIRING

THOUSANDS OF JOBS GAINED IN 1994

|                  |       |
|------------------|-------|
| MANUFACTURING    | 100   |
| CONSTRUCTION     | 210   |
| RETAIL           | 75    |
| TRADE            | 415   |
| TRANSPORTATION   | 68    |
| EDUCATION        | 32    |
| HEALTH SERVICES  | 975   |
| FINANCIAL SUPPLY | 282   |
| GOVERNMENT       | 150   |
| NONFARM          | 97    |
| NONFARM          | 1,956 |

LABOR DEPT., BUSINESS WEEK

But this time, the inflation outlook requires special attention to the factors that separate this expansion from those in the past. To begin with, the Federal Reserve began an early tightening of monetary policy while inflation was still falling in an attempt to slow demand—something it hasn't done since the 1950s.

And as for business costs, the exceptionally large contribution to productivity growth in this upturn is keeping unit labor costs under wraps, even though wage growth is beginning to pick up. The result: Inflation may break above 3% next year but not by much.

### MILLION NEW JOBS FAR THIS YEAR

With the Fed on the case against excessive demand, it's the cost side of the inflation equation that bears a close watch—especially labor costs. On that front, the Labor Dept.'s July employment report shows another month of strong job gains and a low unemployment rate, usually interpreted as harbingers of wage pressures. Businesses added 259,000 workers to their payrolls in July, on the heels of an even larger 356,000 increase in June. So far this year, new hires total almost 2 million, the highest seven-month gain in 6½ years. The advance has been broad, with especially big increases in retail trade and services (table). The jobless rate did tick up to 6.1% in July, but that's not statistically different from June's low of 6.0%.

These numbers clearly describe a strong labor market. But are they inflationary? Only days after the employ-

ment data came out, Labor published a much less ballyhooed report on productivity and costs that answered: maybe not.

Although productivity, measured as output per hour worked, fell at an annual rate of 1.2% in the second quarter, the trend over the past year shows that productivity continues to grow at a healthy 2.6% clip. In fact, since the recession ended in the first quarter of 1991, productivity has grown at an annual rate of 2.2%, accounting for more than three-fourths of the economy's 2.9% growth rate. That's by far the largest contribution of productivity to economic growth in any upturn since 1960.

The result is the slowest pace of unit labor costs compared with any similar period of expansion in the postwar era. Unit labor costs, which consider the effect of productivity on wages and benefits, rose at an annual rate of 2% last quarter. But in the past year, unit costs are up a scant 0.4% (chart).

### PROFIT MARGINS GET A BIG LIFT

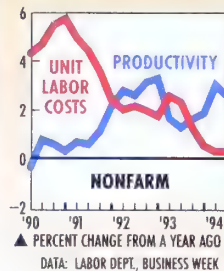
That's hardly a harbinger of inflation. Even though prices are up only 2.5%, almost no growth in unit labor costs means that profit margins have risen during the past year. Sure, there are scattered signs of improved pricing power—in steel and cars, for example—but fatter margins in an improving economy explain why second-quarter profits looked so surprisingly strong.

All this is true in spades in manufacturing. Factory productivity rose at an annual rate of 3.8% last quarter, while unit labor costs dropped 5.2%. For the year, efficiency is up 5.2%, with unit costs down 2.6%. Clearly, factories are feeling no pain or pressure to raise prices.

Any problem from cost pressures is most likely to come from services, where productivity gains are slowing. That's because a variety of service industries have accounted for a big chunk of this year's acceleration in hiring, while output has not kept pace. Service-producing businesses added 231,000 workers in July, on top of the 311,000 put on in June.

But if the economy is slowing, as much of the recent data suggest, a cooler pace of demand will starve any cost pressures before they can build. As a result, the pace of hiring seems likely to slow in the second half as business-

### PRODUCTIVITY GAINS EASE COST PRESSURES





es that cannot raise prices act to avoid a squeeze on profits.

Despite the general strength in the July job report, one key labor-market indicator suggested that third-quarter economic growth was off to a tepid start: overall hours worked, which combine the month's big payroll gains with the unchanged workweek, at 34.6 hours.

Although total hours were up from June, they began this quarter with a rise of only 1.7% at an annual rate, after jumping 6.5% in the second quarter. Hours worked in manufacturing began the third quarter below last quarter's level, a sign that factory output is off to a weak start.

That likely reflects slow ordering by wholesalers and retailers, who are working down the extra

inventories that had built up in the spring. Wholesalers managed to cut their stock levels by 0.4% in June, but paring down the pileup will take some time because consumer spending is slowing down.

## CONSUMERS ARE SAYING 'CHARGE IT' MORE

Indeed, consumers have become more cautious even as their take-home pay is on the rise. In July, nonfarm wages increased 0.4%, to \$11.12 per hour, and weekly pay also advanced 0.4%, to \$384.75. Hourly pay in construction and retail trade posted large gains in July.

Hourly wage growth is clearly trending higher (chart). In the year ended in July, wages had increased by 2.8%—better than the 2.3% pace in July, 1993. Moreover, wages are rising faster than inflation, something that has not happened since 1986. And better productivity growth is negating the inflationary impact of the wage uptick.

But if paychecks are growing, why the spending slowdown? One reason: The recent shopping spree satiated

pent-up demand that had developed during the early, sluggish part of the recovery. Plus, consumers will probably shift some of their new income into savings, which have dropped to woefully low levels. Also, the new frugality of the '90s suggests that consumers will balk at goods they think are too expensive.

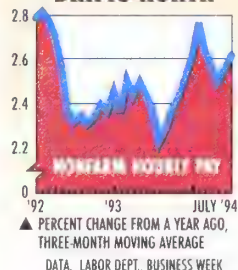
Of course, it isn't just income that is bankrolling these trips to the mall. Consumers are borrowing a lot more in 1994. Installment credit soared by \$10.9 billion in June. That was the fourth consecutive monthly increase above \$10 billion—41% of which came from revolving debt, which includes credit cards. Borrowing was not that frenzied even in the debt-maniac 1980s.

Behind the binge: Consumers today are less fearful about losing their jobs—and incomes. Plus, they may be using credit cards to accumulate such perks as rebates, money toward new cars, and frequent-flier miles. Also, after retiring a lot of debt in the early 1990s and refinancing their mortgages last year, the average household has cut the portion of its monthly budget that goes to pay off old IOUs.

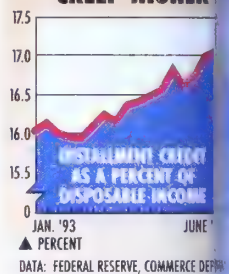
So far, the debt spree does not seem to be a strain on consumers. The ratio of debt outstanding to income edged back up to 17.2% in June—the highest reading in the years (chart). Still, it's below the peak of 18.6% hit in 1980. Consumers can probably add a bit more to debt loads before borrowing becomes a financial stress.

But even with the extra debt, the likely pace of job and income growth in the second half should support about 2½%-to-3% growth in consumer spending. And instead of paying a premium price for a morning hit of some exotic Kenyan blend, consumers might just opt for a cup of java from the local diner.

## WAGE GROWTH DRIFTS NORTH



## DEBT BURDENS CREEP HIGHER



## THE WEEK AHEAD

### INDUSTRIAL PRODUCTION

*Monday, Aug. 15, 9:15 a.m.*

Output at the nation's factories, mines, and utilities probably edged up just 0.1% in July, according to the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. Output increased 0.5% in June, but utility output, which jumped 5.4%, accounted for almost all of the rise as extremely hot weather pushed up electricity use. In July, however, utility use fell back, and the small gain in factory jobs and a drop in the workweek suggest that manufacturing production struggled to increase last month, after rising just 0.2% in June. Auto output

likely fell in July. As a result, operating rates for all industry fell to 83.8% in July, from 83.9% in June.

### HOUSING STARTS

*Tuesday, Aug. 16, 8:30 a.m.*

The median MMS forecast expects that housing starts likely bounced back to an annual rate of 1.38 million in July, after plunging 9.8% in June, to 1.35 million. The rebound is indicated by the rise in jobs and hours worked in the construction industry. However, the July increase may not be that large, given the rise in unsold homes that builders were carrying at the end of June. Plus, mortgage applications to buy a home have been trending lower.

### FOREIGN TRADE

*Thursday, Aug. 18, 8:30 a.m.*

The foreign trade deficit of goods and services likely fell to \$8.8 billion in June from \$9.2 billion in May. For goods alone, the gap narrowed to \$12.2 billion from \$14.1 billion. Exports, which rose 0.5% in May, likely rose in June, while imports fell, after rising 1.6% in May.

### FEDERAL BUDGET

*Friday, Aug. 19*

The U.S. government will probably report a \$33 billion deficit in July, better than the \$39.6 billion gap of July, 1993. Washington could end fiscal 1994 with a deficit below \$200 billion.

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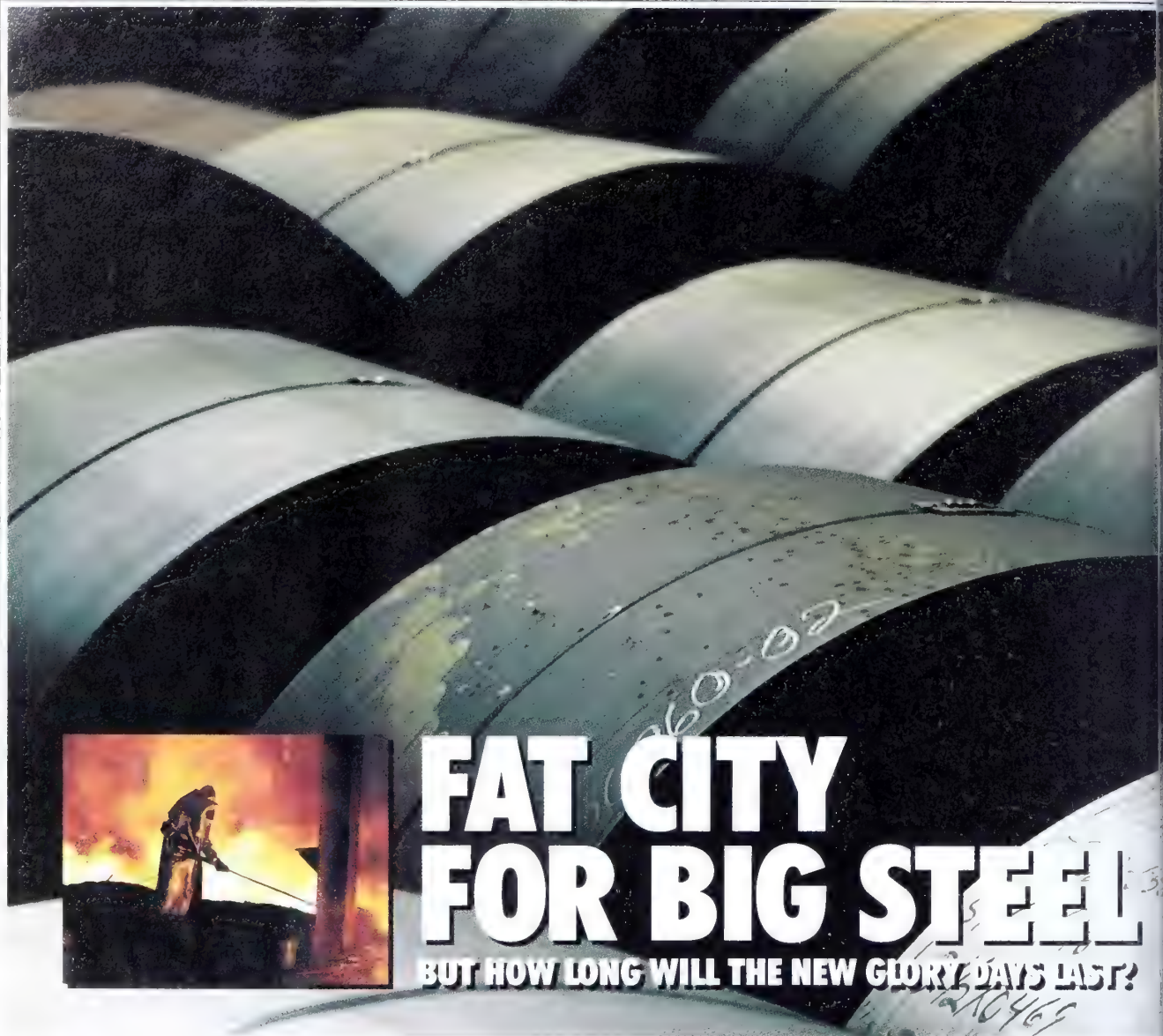


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STEEL



## FAT CITY FOR BIG STEEL

BUT HOW LONG WILL THE NEW GLORY DAYS LAST?

**W**hen Thomas C. Graham was president of U.S. Steel back in the mid-1980s, he spent most of his time ripping out excess mills—and devastating mill towns along the Monongahela and Ohio rivers. Graham blamed the U.S. steel industry's woes on the overvalued dollar. And he told friends, he recalls, that he wouldn't be happy until the dollar was chopped down to size. "I've always been a 100-yen man," he said. They laughed.

Today, Graham, now head of AK Steel Corp., based in Middletown, Ohio, and his fellow top steel executives are the ones who are laughing. Thanks to the dirty work done in the 1980s, the U.S. steel industry is lean, efficient, and primed to cash in on a newly exuberant market. What's more, with Graham's 100-yen dream come true, the Ameri-

cans can jack up prices without worrying much about a flood of imports. Indeed, with economic recovery moving ahead in Europe and Japan, steel prices are rising fast—and the world seems to be solidly in the midst of a steel boom. "A revolution has taken place here," says one European trader in New York, pointing to demand outstripping supply. "If you hadn't followed the steel market for the last three months, you wouldn't recognize it."

**INFLATION JITTERS.** Feasting on these fears of a global shortage, big U.S. steel companies are hurrying to jack up prices, especially with their biggest and most eager customers, the steel-hungry auto makers. In early August, LTV Corp. says, it tentatively reached an agreement with Chrysler Corp. for a 10% price hike, though Chrysler Chairman

Robert J. Eaton denies any deal has been signed. Reports of the possible hike fueled fears of inflation, sending the bond market lurching. But given the insatiable appetite for steel in global markets, a hike of only 10% may turn out to be a bargain for the auto makers. The increase, says LTV Chairman David Hoag, is "long overdue."

Decades back, steel strikes and price hikes brought executive action from Presidents Truman and Kennedy. But don't expect any crackdown this time around. "The impact on the consumer price index is minuscule," says Robert E. Rubin, the White House's chief economic adviser, of steel price increases.

Today, steel is no longer at the heart of the U.S. economy. It is dwarfed by liabilities such as health care and software. Even Detroit, which now spends an a-



AUGUST 22, 1994

forecasts haven't escaped Wall Street's notice: Investors bid up steel stocks 20% in July.

Big Steel's renaissance really began as long as a decade ago, when, benefiting from the Reagan Administration's Voluntary Restraint Arrangements to limit imports, the U.S. industry pumped \$28 billion into modernization. At the same time, it reduced its payroll by 260,000 workers, to just 133,000 today. The result, says Bethlehem Steel Chairman Curtis H. Barnette, is an industry that has "reinvented itself." Today, U.S. steel companies often surpass European and Japanese competitors in efficiency, and the cheap dollar is giving them an added edge.

One sign of how well U.S. steel companies are doing: They no longer feel foreign rivals breathing down their necks. Just last summer, Big Steel was angrily suing its global competitors, charging them with dumping cheap steel in the U.S. The International Trade Commission ruled against the industry in most cases. But the strong steel market eased the pain. Big Steel has to import

massive quantities of steel made by foreign rivals just to meet demand.

Still, big integrated companies—those that make iron in a blast furnace from raw materials—need to invest every dollar they make as though their survival depends upon it. It does. Over the past two decades, a host of nimble minimills, which make their metal by melting steel scrap, have wrested away Big Steel's markets in everything from structural beams to rails. Their secret: state-of-the-art technology, nonunion labor, and flexible mills near their markets.

Now, following industry leader Nucor Corp., minimills are pushing into Big Steel's biggest and most profitable market, the flat-rolled steel that goes into cars, refrigerators, and washing machines. Nucor is doubling its flat-rolled capacity this year. Other plants are go-

ing up in Indiana and Kentucky. Eyeing U.S. rivals' plate steel market, British Steel PLC plans to expand its Tuscaloosa (Ala.) mill into a full-fledged minimill. And in Pittsburgh, the heart of Big Steel country, fledgling World Class Steel is about to announce a new \$300 million flat-rolled minimill using new U.S. technology. Ironically, the new mill will go up in one of the old U.S. Steel buildings that Tom Graham shuttered in the 1980s.

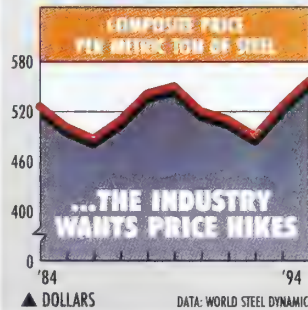
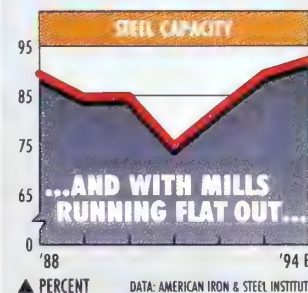
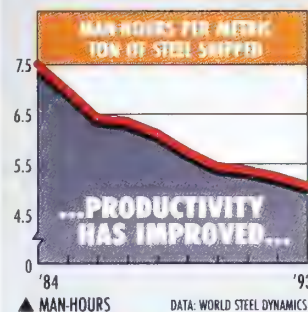
This wave of investment portends a vicious market-share war when the market turns south again. "Real blood's going to be shed next time we have a downturn," says Tuscaloosa Steel President David J. Tarasevich.

**THE HUNT.** Big Steel, moreover, has some sizable weaknesses that are being masked by the market's buoyancy. The downsizing of the 1980s pushed thousands of workers into early retirement, and companies such as U.S. Steel and Bethlehem now support five retired workers for each active worker they employ. LTV alone bears \$3.7 billion in long-term pension and health-care liabilities.

Moreover, the big companies are still far too dependent on Detroit. Hunting for market niches the minimills aren't going after, Big Steel has invested with Japanese partners in state-of-the-art mills for automotive steel. With autos booming, that's paying off. But a drop-off in Detroit could stop Big Steel's rally in its tracks. Says Barnette: "As long as our customer's boom period lasts, that's how long our boom will last."

For now, the signs are positive for Big Steel. But veterans such as AK Steel's Graham know their companies' strength results from harsh measures taken in tough times. And they must be ready when tough times return.

*By Stephen Baker and Keith L. Alexander in Pittsburgh, with James B. Treece in Detroit and Douglas Harbrecht in Washington*



of \$600 per car for raw steel, has lit-  
ar that steel price hikes will spread  
other suppliers. "I still don't see  
signs of inflation in the system,"  
Ford Motor Co.'s president of auto  
ations, Edward E. Hagenlocker.

**REINVENTED.** Steel prices aside, that is.  
the domestic market tight, steel  
anies have pushed up prices 7% so  
his year, with 5% increases due on  
1 from LTV, Bethlehem Steel, and  
s. These hikes have gone straight  
e bottom line, where big steel com-  
es such as U.S. Steel, Bethlehem,  
LTV have moved from losses to fat  
ts in the past year.

ineWebber Inc. analyst Peter Mar-  
pects Big Steel to earn operating  
ts of \$21 per ton shipped this year  
a mind-boggling \$45 per ton in '95—  
om \$6 per ton in '93. Such rosy



## BUG CONTROL AT CHRYSLER

Defects delay a key launch and spark a major quality campaign

**W**hen Robert J. Eaton drove a prototype Cirrus sedan in March, the Chrysler Corp. chairman knew the car needed lots of improvement before it could roll into dealer showrooms. In his two days behind the wheel at Chrysler's proving ground north of Phoenix, Eaton noted the poor fit of dashboard pieces and other plastic interior trim. And he winced at the raucous clatter made by the V-6 engine when he punched the accelerator.

Eaton's vexation is proving momentous for the No. 3 auto maker. The chairman quickly launched a major campaign to boost the quality of Chrysler cars. His first move: delaying production of Cirrus and its cousin, the Dodge Stratus, until fixes could be made. By Aug. 9, as production began ramping up—nearly a month behind schedule—Eaton's troops were still scrambling to make last-minute fixes. At stake: the lucrative market for family sedans that's dominated by some of the world's highest-quality cars, such as the top-ranked Toyota Camry. Chrysler "cannot afford to screw this one up," says William Pochiluk, president of Autofacts Inc., an automotive consulting firm.

**HELPFUL YEN.** Chrysler already has made some changes in the Cirrus. To help hide unsightly gaps, engineers added a five-millimeter lip to the joint where the Stratus' dashboard meets a piece of trim just under the windshield. And engineers are testing thicker steel in the underbody, hoping that such a change will reduce engine noise in the passenger compartment.

The company's aim: to best—or at least match—Japan's vaunted quality. The Cirrus and Stratus, along with a yet-to-be-named Plymouth version due in the 1996 model year, are priced from \$13,000 to \$19,000 and aimed right at the heart of the 2.5 million family-sedan market. Japanese models dominate the segment, even though the soaring yen has forced price hikes that give domestic models a \$2,000 to \$3,000 price advantage. That's because many young,



**CHAIRMAN EATON WASN'T SMILING THE FIRST TIME HE DROVE THE CIRRUS**

affluent buyers remain extremely skeptical of Detroit's ability to build quality products. "This is our toughest market," concedes Steven Torok, general manager of the Chrysler/Plymouth division.

Chrysler has made strides in stamping out defects in much of its line during the past 10 years. In fact, its Town & Country minivans are tied with Toyota for the top spot in J. D. Power & Associates Inc.'s truck quality ratings. But its cars continue to lag the rest of the industry: All of Chrysler's car brands performed below average in J. D. Power's most recent survey of problems encountered during the first 90 days of ownership (table). In fact, of 31 brands, Chrysler's cars all finished in the lower third of the rankings, with the worst, Eagle, finishing 28th. The results were a real blow to the company. "We've been working hard, and I thought we'd end up doing a little better," says Eaton, who took the helm at Chrysler two years ago.

After the survey results appeared in June, Eaton canceled an internal preview of 1995 models at Chrysler's proving ground in Chelsea, Mich. Instead, he assembled the com-

pany's top 600 officers in a technical center auditorium to tell them that "clearly, we need to put more focus on quality."

To help, Chrysler has hired Pro Development Corp., a Taylor (Mich.) consulting firm. Its goal is to help merge the company's internal factory audits more closely match J. D. Power's survey. The company's Neon small-car to says PDC's guidance may allow them to equal Toyota Corolla's quality numbers in time for next year's Power survey. "We've talked about quality for years," says executive-engineer J. Fernandez. "The difference this time we're actually doing it."

**POOR RADAR.** Better audits could help Chrysler fix glitches before cars get to dealer lots. Right now, executives aren't alerted to problems until customers are surveyed 45 days after getting their cars. On high-volume models that could mean as many as 30,000 happy buyers.

For the moment, Chrysler's nagging

quality snags are hurting sales. With the car industry booming, Chrysler is sold out nearly every production build and has a tight 45-day supply of inventory. Second-quarter earnings hit a record nearly \$1 billion. However, Eaton knows this success could be short-lived. A few more defects could drive demanding baby-boomer buyers away forever.

*By David Wood in Sonoma, Calif.*

### CHRYSLER'S LAG

| QUALITY RATINGS |            |
|-----------------|------------|
| Ranking         | Score*     |
| 1. LEXUS        | 54         |
| 2. TOYOTA       | 69         |
| 3. INFINITI     | 75         |
| 4. LINCOLN      | 76         |
| 5. SATURN       | 78         |
| <b>AVERAGE</b>  | <b>110</b> |
| 18. PLYMOUTH    | 122        |
| 24. DODGE       | 144        |
| 26. CHRYSLER    | 147        |
| 28. EAGLE       | 155        |

\*Problems in first 90 days per 100 cars sold  
DATA: J. D. POWER & ASSOCIATES INC.



# MEDICINE SHOW A MINUTE WASHINGTON

h-care lobbying "is white-hot now, but it's only going to get hotter"

it-  
ins in the House cafeteria. An 800-pound "Trojan horse" loaded with "hidden taxes" circling the pl. Paid two-minute speeches by lent Clinton on Cable News Net-Newspaper ads linking outspoken on General M. Joycelyn Elders to overnment" control of medicine. must be time for Congress to vote alth-care reform.

a capital burned out by a and a half of fierce debate, month when most people rather be anywhere but na-on-the-Potomac, interest s are flooding into Washing- ith pleas for action—or inac- on remaking the American of health. Lawmakers are d in a Capitol besieged by yers, labor unions, and con- groups—and the \$1 trillion al industry—as they begin lebate on competing reform The action is white-hot now, s only going to get hotter," ts Alan M. Kranowitz, chief st for the National Associa- Wholesaler-Distributors.

White House is counting on t of public outrage against rrent health-care system to pposition to reform. To boost response, the President d in a \$1 million, weeklong of nightly ads on CNN, begin- in Aug. 4, in which he re- ed to critics' charges that his of reform would be costly, eratic, and dangerous to the ay. To shape coverage as the launched its debate, Hillary m Clinton on Aug. 9 submitted are interview with two dozen ers.

**E.** But so far, opponents seem to ring more success at rousing the The Health Security Express— ravans of Clinton supporters from the country—drew more anti-re- protesters than backers at most Conservative groups such as Cit- or a Sound Economy and the U. S. er of Commerce outthusted Clin- allies, flooding local media with news releases and spokespersons. most significant lobbying, though, sed on a small slice of Congress— it intended for the glare of public-

ity. Health reform will rise or fall on the question of whether employers must bear the insurance tab. As Corporate America joins small business in uniting against the main Democratic reform plans, every business lobbyist knows the list of a dozen senators and 60 to 70 representatives whose votes will tip that balance. The National Federation of Independent Businesses has swamped 65



House districts with 500,000 letters, urging small companies to call or write to oppose the mandate on employers. The AFL-CIO has countered by equipping local unions with cellular telephones that workers can use to call Congress from work sites. Hill aides report that calls and letters are running strongly against the Democratic bills—but the messages are almost all programmed by business opponents.

The health-care lobbying tide is big enough to carry other issues, too. The Family Research Council, a group promoting conservative social values, ran print ads linking Clinton's choice of Surgeon General Elders—noted for her ad-

vocacy of abortion rights, gay rights, and drug legalization—with the President's health plan. "We're opposed to Clinton's reform," says FRC President Gary L. Bauer, "but what we'd most like to do is get rid of Dr. Elders." The ad's first appearance in *USA Today* drew more than 3,000 calls in 24 hours.

So far, Clinton forces haven't stirred that kind of instant response. The reason is simple, says GOP pollster Frank I. Luntz: "The people who are against Clinton are far more intense than his supporters." So, even though polls show broad public support for such core Clinton themes as universal coverage paid by employers, the voters who oppose the Administration package are more likely to contact their lawmakers.

White House strategists insist that

## HEALTH REFORM'S THREE-RING CIRCUS

As debate on health-care reform moves to the floor in the Senate and House, lobbying has reached a frenzy:

### THE TUBE

President Clinton launches nightly paid speeches on CNN, which cost the Democratic National Committee \$1 million. Republicans counter with a health-care "forum" beamed to 800 local Chambers of Commerce.

### VISUALS

Cabinet members flack studies on the state-by-state impact of reform. The National Taxpayers Union's 800-pound "Trojan horse" circles the Capitol to symbolize "hidden taxes."

### GRASSROOTS

The AFL-CIO equips locals with cellular phones so members can call Congress with pro-reform scripts. National Federation of Independent Business mails 500,000 letters to stir up small-business opposition.

they, too, can mobilize intense interest. "If the debate is conveyed in understandable terms to people," declares Hillary Rodham Clinton, "there will be increasing support...for making hard decisions." But even Administration allies admit to increasing doubts. Will Marshall, president of the Progressive Policy Institute, a centrist Democratic think tank, believes the best the Clintons can do "is simply to keep the public interested in the concept of reform." That may be enough to pass a modest reform bill—but nothing like the ambitious goals the Clintons have set.

By Mike McNamee and Richard S. Dunham in Washington

DENNIS BRACK/BLACK STAR



## 28 BUSINESS WEEK/AUGUST 22, 1994



# COMPAQ: READY FOR THE RUMBLE

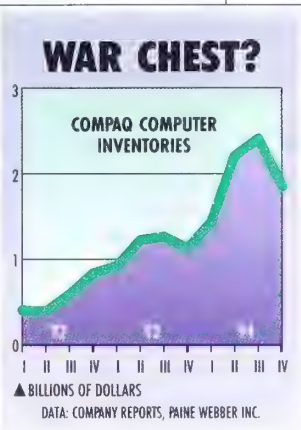
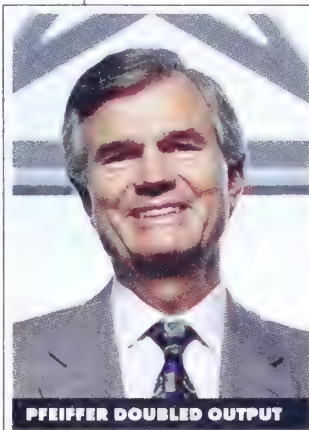
ing warehouses and fat margins  
lead to all-out price cutting

Compaq Computer Corp. out on a limb? Its share of the personal computer market has jumped to 14%, from 10.4%, in the space of a year. In the process, it passed struggling IBM and Apple Computer Inc. to cop the industry lead in unit shipments so far this year. In the process, though, Compaq has built up a staggering \$2.2 billion in inventory. That's four months' worth of sales—double the level of just a few quarters ago. Historically, Compaq has been more cautious in managing its inventories. As a result, it has a tradition of being plagued with chronic product backlogs. Now, the personal computer company says it wants to eliminate those shortages—and gear up for what it hopes will be a five-figure Christmas sales onslaught.

**THE DRIVE.** In the second half of the year, Compaq is expected to ship 50% more computers than in the first six months. "There's no reason we can't take a couple more points of market share on the board by the end of the year," says Chief Financial Officer Daryl Hite.

Compaq denies it, but there are signs that its strategy could touch off a fierce fourth-quarter price war. With profit margins around 26%—well above the industry norm—the Houston company is uniquely positioned to drive down prices without losing its profit edge. Moreover, after investing \$350 million this year in new plant capacity, Compaq has an interest in keeping products moving fast.

Certainly, the company is playing from strength. After doubling output in a year, its second-quarter profits jumped 105%, to \$210 million. It has be-



gun building restyled versions of its Prolinea desktop and Contura laptop machines, plus new models of its Presario home PC—all of which are expected to be announced in coming weeks. Compaq also plans to double spending on advertising in the second half over last year, to more than \$100 million. By the end of 1995, says Dataquest Inc.

analyst Kimball Brown, Compaq could "pull away from the pack."

That's why Compaq CEO Eckhard Pfeiffer downplays the risk of full warehouses. "It's one thing to be concerned about inventory," he says. "But if you're constantly behind, you need to get on top of it sometime." Analysts agree there's probably no better time for Compaq to make that move. Sales are booming across most of its product lines. Even the beleaguered Aero sub-notebook has picked up since the company dropped the price to \$999, from about \$1,300, in June.

**BIG BLUES.** Compaq's inventories, though, now dwarf those of Apple and Dell Computer Corp. And in an industry where many models survive less than a year, bloated stockpiles have punished powerful rivals. IBM, for one, is still taking back some \$600 million of unsold low-end PS-1 and ValuePoint models, after an attempt to flood its channels last autumn backfired, says International Data Corp. analyst Richard Zwetckhenbaum.

Compaq says it plans to reduce prices for Christmas only on selected models. "We are not planning 20% or 30% cuts across entire product lines," pledges CFO White. But with prices for microprocessors falling by double digits, Compaq may be tested to clear its warehouses of PCs built around yesterday's chips. That could mean a punishing Christmas for other PC makers.

*By Peter Burrows in Dallas*

able operator that's doing much of the switching, Time Warner Entertainment is 25% owned by a Baby Bell, Inc.

phone companies could even use good ideas from the cable industry, traditionally technological laggards. Says Andrew H. Chapman, executive president of Integrated Networks in Bridgewater, N.J., one of the companies making proposals to the cable industry: "There is an opportunity to define the next-generation

network paradigm, not only for the cable industry but for the entire telecommunications industry."

With cable companies accepting proposals until Sept. 23, it's too soon to say what their network design might look like. But one thing is clear: Many cable operators believe they can come up with something cheaper and more flexible than the ATM switch, which chops and sorts simultaneous flows of voice, data, and video traffic. Instead, they might embrace networking concepts from the Internet or even from cellular nets.

Cable operators certainly run risks by striking out on a new course. Historically a low-tech industry of ditch diggers and wire pullers, cable companies are short on the wherewithal to weigh the competing concepts that are descending on them. The industry's

R&D consortium, Cable Television Laboratories Inc. in Louisville, Colo., does a remarkable job, but it has only 45 employees, less than 1% the number at Bellcore. Technologies such as ATM, while imperfect, have been chewed over for years by thousands of people at companies from Siemens to Sun Microsystems Inc. In contrast, cable operators hope to start placing orders as soon as December.

**FRESH IDEAS.** What could go wrong? Ask any telecom engineer. The state-of-the-art solution might crash when it's loaded with real traffic. Or innovative features might not mesh with existing phone networks. Any such flaw would embarrass cable operators just when they need to prove their reliability.

Still, it's heartening to see new market entrants bringing fresh ideas to a telephone industry whose architecture has always been dictated by monopolists. Good thing Ray Smith and John Malone never made it to the altar.

*Coy is BW's technology editor.*





## TOURISM

### OH SAY CAN WE SPEND?

A weak dollar is luring tourists to the U.S. in droves

If you haven't made reservations for your summer vacation yet, you may be out of luck.

Summer '94 is turning into a blow-out, with hotel, airline, and related bookings tight just about everywhere. "This will be a record-breaking summer for the entire travel and tourism industry," says Bob Dickinson, president of Carnival Cruise Lines Inc. and chairman of the Travel Industry Association of America (TIA).

**HELP WANTED.** Just how good? Add it all up, and this summer's gung ho tourism season is healthy enough to provide a solid boost to the U.S. economy. The Labor Dept. reported that tourism-related jobs were up 343,000 in July from the previous year—raising the number of such jobs to around 11 million. Some regional economies are really feeling the improvement. In Texas, for instance, jobs found in the amusement and recreation sector jumped 5.9% in June from a



year earlier, while hotel jobs increased 4.4%.

At the heart of this expansion is a surge in international visitors. Thanks to a weak dollar, recovering economies in Europe, and boom times elsewhere, people are traveling to the U.S. in droves. "The impact of American culture is so widespread and so powerful, it's generated desire among a lot of people to travel to the U.S.," says Doug Fretchling, an associate professor of tourism studies

at George Washington University.

Just about every country is sending more tourists to the U.S. The French travel agency Forum Voyages has seen a 50% increase in bookings to the U.S. this year compared with last, with reservations strong through mid-September and even into October. The number of British visitors is up 9% from last year to 3.4 million. Meanwhile, Japan Travel Bureau Inc., Japan's largest travel agency, predicts a 19% increase in Japanese

## BOATING

### MEN OVERBOARD IN BOATLAND

Sales are frothy, but two industry leaders have trouble at the top

The recession of the late 1980s clobbered many industries, but it hit the boat business particularly hard. The federal luxury tax only made matters worse. Sales of outboard motors and boats large and small fell by as much as 50% from 1988-92.

Now the boating industry has reached safe harbor. Consumer demand for pleasure craft jumped 7% last year, the first increase in four years. And it looks like 1994 could be even better: Industry leaders Brunswick, Outboard Marine, and Genmar should all be in the black in 1994—the first such sweep in years.

So much for the good news.

During the past two months, the heirs apparent for chief executive posts at Outboard Marine Corp. and Brunswick Corp. have jumped ship, leaving the

boatmakers without successors—less than 18 months before their skippers retire. In June, Brunswick President John P. Reilly left after nine months because of disagreements with Chairman Jack F. Reichert. On Aug. 3, OMC Executive Vice-President Robert D. Randolph sailed when the board of directors announced it was looking for an outsider to replace CEO James C. Chapman.

What went wrong? Says OMC board member and Harley-Davidson Inc. CEO Richard F. Teerlink: "We decided we needed someone with a different set of skills than Bob." Despite successive re-

more complicated. By all accounts, the hard-charging former president of Tenneco Inc.'s automotive unit had helped sharpen the company's edge. In an effort to drive down costs, for instance, he had begun to combine the purchasing of Brunswick's disparate boatmakers. But he may have bumped up against a cadre of strong-willed insiders.

**FRICTION.** The biggest problem: friction between Reilly and Reichert and Reilly's chief aide, Vice-President and Corporate Secretary Dianne M. Yaconetti. Yaconetti exercises influence over such key issues as hiring and strategic planning.

Sources close to the company say repeated clashes between Reilly and Yaconetti eventually drove him from the company. Yaconetti declined to comment.

Brunswick denies Yaconetti had anything to do with Reilly's departure, and to say she did "is inaccurate," says Reichert. "Philosophically and culturally, there were differences between him



CHAIRMAN REICHERT HAS NO SUCCESSOR AT BRUNSWICK



tourists visiting the U.S. this summer. South Korean visits are up 47% in the first half of this year, says the Korea National Tourism Corp.

**FAT WALLETS.** For industries that cater to tourism, the trend is terrific news: International visitors generally spend more and stay longer than domestic travelers. For every \$59,903 spent by international visitors, the TIA estimates, one job is created.

There are some exceptions to the boom—notably Florida, which has been hurt by its “sun and gun” image. A sign of the times: Disney World staffers in a July 1 memo that urged softness could mean layoffs of 2%, or 700 of its 35,000 central-fla workforce, by early fall. Late arrivals take note: There’s room to grow in Orlando.

*Gail DeGeorge in Miami, with Hirohisa in Tokyo, Paul Bennett in New and bureau reports*

and ours,” Reichert adds. Reilly es to be quoted. The Brunswick has begun the search for another sponsor. Brunswick’s executive-suite problems just as industry analysts predict the company’s net income could hit million this year—up from \$23 million last year—on sales of \$2.6 billion. The company’s rebound has gone in hand with complaints by commuters that it is monopolizing the market boats and engines. Indeed, the Federal Trade Commission has launched an investigation of Brunswick’s sales practices. Reichert calls rivals’ sales “without merit,” and says he expects the FTC probe to end without achieving taken.

Genmar Holdings Inc. is about the industry player sailing in untroubled waters. Chairman Irwin L. Jacobs says Genmar’s profits should hit \$20 million this year, reversing a 1993 loss; he even takes Genmar public next year. If all, perhaps, for Jacobs: The 53-year-old financier likely has years before he has to worry about his successor. He should be so lucky.

*Kevin Kelly and Richard A. in Chicago*

## SKID MARKS AT BRIDGESTONE

A strike may drag on as labor charges “an unholy alliance” with foreign companies

Just three years ago, labor relations between Bridgestone/Firestone Inc. and the United Rubber Workers were a model for industry. The No. 3 U.S. tiremaker felt so confident of its relationship with workers that it voluntarily allowed the union into its new plants. Together, in 1991, the two sides negotiated a three-year national contract without a strike.

Fast-forward to 1994. Today, the company and some 4,200 workers at six locations are batten down for a long siege in a strike that began July 12.

And things are turning nasty. On Aug. 2, URW President Kenneth L. Coss accused the Japanese-owned Bridgestone of being the “ringleader” in an “unholy alliance” with three other foreign tiremakers—Japan’s Yokohama Rubber Co. and Sumitomo Rubber Industries Ltd., and Italy’s Pirelli Group—all of which have seen strikes since June. Calling the companies “invaders,” Coss says all four are demanding “parallel deep concessions.” Bridgestone denies any such alliance.

**BLACK INK.** The company’s labor relations began sliding, outsiders say, with the arrival in 1991 of a new chairman at Bridgestone/Firestone, Yoichiro Kaizaki, a cost-cutter who has since moved up to head the parent company in Tokyo. A strike at one plant in 1992 hurt the Akron union’s credibility with the company. Later, officials who had backed cooperation departed. Now, Bridgestone Corp. is determined to wring major productivity gains out of its lagging U.S. operations. “We have a compelling need to change our competitive position in the marketplace,” Vice-President Charles R. Ramsey told workers in a May 26 letter.

Ironically, the dispute is coming just as Bridgestone/Firestone is showing signs of turning around. Firestone has posted more than \$1 billion in red ink

since Bridgestone bought it in 1988 for a pricey \$2.6 billion. Gradually, though, the company has restored relations with dealers, reinvigorated the Firestone brand, and gained market share. Last year, the unit pulled into the black, netting \$6 million on \$5.1 billion in sales.

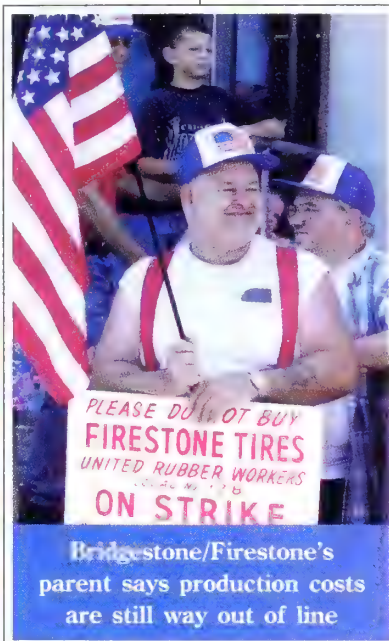
That’s not enough, Bridgestone says, claiming that it spends \$5 more than its rivals to make a tire. Under the company’s proposal, a spokesman says, employees would make a substantial \$65,000 a year in wages and benefits.

The union would like a pact similar to the one it approved with Goodyear Tire & Rubber Co. in June. Both companies say they pay about \$30 an hour in wages and benefits, but Goodyear will increase pay and benefits close to 16% over three years. Bridgestone/Firestone’s “last, best and final offer” would produce 15%, the company says. But most of that gain would come from cost-of-living payments that workers would earn by meeting productivity goals set by the company.

Such a plan is anathema to the rubber workers. John W. Sellers, the union’s Bridgestone/Firestone coordinator, also is incensed by a long list of cutbacks, ranging from reduced health-care coverage to a proposal to allow 12-hour work shifts 14 days a month. Bridgestone argues that similar shifts have been adopted at competitors’ plants.

The company is girding for a showdown. The striking URW plants account for less than half its North American capacity, and it has stockpiled inventory. But the URW isn’t backing down. Pointing to rivals such as Goodyear, Sellers declares: “The answer to being competitive is not to reduce the standard of living of the worker.” With that kind of rhetoric flying, it could be a long fight.

*By Zachary Schiller in Cleveland, with bureau reports*





# GREYHOUND IS LIMPING BADLY

The carrier's CEO jumps off in the face of massive shareholder discontent



CRITICS SAY MANAGEMENT LACKS THE KNOWHOW TO KEEP THE BUSES RUNNING ON TIME

**T**o investors in Greyhound Lines Inc., the episode was evidence of shareholder activism at its finest—and quickest. On Aug. 5, Connor, Clark & Co., a Toronto investment manager with an 18.3% Greyhound stake, publicly called for the ouster of Chief Executive Frank J. Schmieder. Four days later, after a special meeting of Greyhound's directors, Schmieder had resigned. "The market has spoken," crowed investor Chriss W. Street of Chriss Street & Co.

Greyhound investors have been grumbling for months. The nation's dominant passenger bus line has lost money in its last three quarters (chart). Its stock has dropped 73% in the past year, to about \$6, and a poison pill, instituted in March, heightened discontent. Many outsiders and former executives say that top management, with little previous industry experience, has neglected such basics as operating buses on time. "This is the destruction of an American icon," complains a former operations manager. **APPLAUSE.** Greyhound denies that Schmieder, a former investment banker who took the reins in July, 1991, was forced out. Director and former Pan Am chief Thomas G. Plaskett, named as interim CEO, insists

there was no knee-jerk reaction to investor pressure—although as late as Aug. 5, according to a company spokesman, the special board meeting on Aug. 9 was not yet scheduled. Rather, Plaskett says, directors had discussed for "some months" the right management team to implement a major overhaul announced in mid-July. "There was mutual agreement that now was the time for change," he says.

Schmieder wouldn't comment. But his departure drew unanimous applause from investors, former managers, and analysts who have weathered a rocky three years since Greyhound emerged from bankruptcy protection. Early on, Schmieder won praise for slashing costs,

upgrading buses and facilities, and tling the bitter labor dispute had pushed Greyhound into bankruptcy. His actions went only so far, tho "The problem with Greyhound has been that it's been very good at cutting expenses but it has not been good at getting people to travel on buses," says analyst Anthony Low-Beer at M. Kleinman & Co.

Greyhound's traffic fell nearly 10% in the first half of this year, even as he discounting took its toll on the bottom line. Managers blamed competition from discount airlines, the economy, weather, and glitches in a new computer reservation system. But some outsiders believe Greyhound's executives were ignoring more fundamental issues. "The company was not being led by transportation people. It was being led by accountants," says Thomas F. Meagher, who left the company's board in May. In part, he says, because he disagreed with management's direction.

**DEEP CUTS.** Passengers' phone calls for fare and schedule information, for instance, are often met with busy signals. On-time performance slipped to 59% in July—decent for the summer season, the company says, but well below its historical high of 81%. And with deep cuts in its fleet size, Greyhound reduced service on some of its most popular routes.

Marketing flip-flops haven't helped either. Last year, Greyhound tried a traditional image-building ad with the theme "I go simple, I go easy, I go Greyhound." In May, Schmieder canned the campaign and returned to advertising fares tailored to individual markets. But critics say Greyhound's pricing can be nonsensical. For instance, a one-way, advance purchase fare of \$68 or less for any of Greyhound's 2,500 destinations, introduced in May, is too deep a discount in many markets, say rivals.

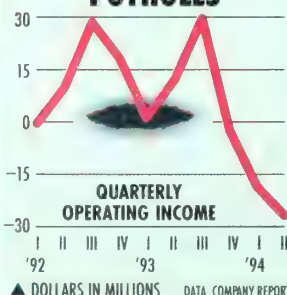
Plaskett, who says that he may remain CEO for up to 18 months, has set out a plan to get "employees back on track" and "getting our spirits up." That won't be easy as Greyhound chops up to 10% of its jobs—part of its plan to focus on regional routes while scaling back its national work and slashing \$65 million in expenses a year. Meanwhile, investors are pressing for board seats. "There are still many steps that have to be taken by this board and this management team," says investor Alank Snyder of Snyder Capital Management. And of course, Greyhound must find a new CEO. America's largest company may have a road map for recovery, but it still needs a permanent driver.

By Wendy Zellner in Detroit



FORMER CEO SCHMIEDER

## GREYHOUND'S POTHOLES







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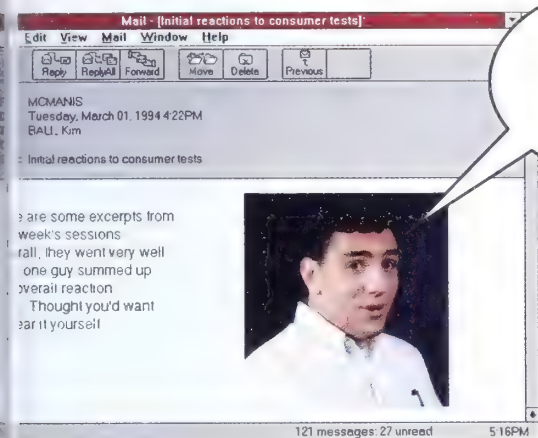


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EDITED BY THANE PETERSON

## SCULLEY IS CLICKING AT KODAK

Just weeks after being hired by Eastman Kodak as an outside consultant, former Apple Computer Chairman John Sculley seems to be wielding major clout. Kodak insiders say Sculley was instrumental in the Aug. 9 hiring of Kodak's new digital imaging chief, Carl Gustin. A former advertising agency executive, Gustin worked closely with Sculley during his six years as a high-level Apple marketing executive. Gustin shifted to Digital Equipment early this year. Kodak insiders say Sculley is playing a dual role at Kodak, which is paying for 25% of his

time. He's working one-on-one with CEO George Fisher on big-think issues. And groups of Kodak managers in the nascent digital-imaging division are being flown to Kodak's New York office to hear his thoughts.

## A GOLDEN WRIST SLAP FOR HEINZ CHAIRMAN

Don't feel too bad for H.J. Heinz Chairman Anthony O'Reilly. Sure, Heinz cut his salary and bonus by 32%, to \$1.9 million, for fiscal 1994 because of weak results. But O'Reilly still gets options on 750,000 shares of stock. That more than makes up for the cutback in cash. The option grant—subject to shareholder approval—is already worth more than \$1.3 million. Other CEOs who saw declines in their salary and bonuses last year: the heads of Amoco, Corning, Kmart, Merck, Philip Morris, and Xerox.

## CYANAMID LOOKS ABROAD FOR HELP

Will American Cyanamid find a white knight to rescue it from American Home Products' unfriendly \$8.5 billion takeover bid? Wall Street speculates that the company may approach Germany's Hoechst and Switzerland's Ciba-Geigy, looking for help. American Home formalized its bear hug with Cyanamid on Aug. 9 with a \$95-a-share tender offer. It also filed suit against a proposed Cyanamid poison pill. Cyanamid wants shareholders to wait 10 business days before responding, while its board studies the offer, which expires on Sept. 7.

## AMERICAN HOME DOESN'T BELIEVE ALEVE

Meanwhile, American Home charges that Procter & Gamble's "All day strong. All day long" cam-

## HEADLINER

## WILL NORTHWEST'S WILSON BE WEEDED OUT

The slogan at Northwest Airlines, "Some people really know how to fly," has taken on an unwelcome double meaning for Co-Chairman Gary L. Wilson. On Aug. 2, while trying to board a Northwest flight after a rafting vacation, Wilson, 54, was caught with 2.7 grams of marijuana and a pipe in his carry-on bag at a checkpoint in Boise, Idaho.

Wilson was issued a misdemeanor citation and allowed to continue his trip. But he has been relieved of all board duties at Northwest pending resolution of a court case on the infraction, which carries a maximum penalty of one year in jail and a

\$1,000 fine. His Boise attorney issued a statement saying that Wilson "sincerely regrets any embarrassment this incident may cause his friends and family."



Despite the tiny amount of marijuana involved, industry watchers wonder if he can resume a role at Northwest, given the airline's strict drug policies for employees. Wilson's future as a director

squeaky-clean Walt Disney could be in question, too. A Disney spokesman would not comment. Wilson, who had bypass surgery in 1992, was Al Checchi's partner in the 1989 Northwest buyout.

By Susan Chance

paign for its new Aleve pain reliever is bunk. In a suit filed on Aug. 8, American Home claims its 10-year-old Advil relieves pain for just as long as Aleve and says P&G ads suggesting otherwise are false. American Home may be miffed, but P&G's ads save their strongest jabs for Extra-Strength Tylenol, arguing that Aleve is "longer-lasting." Tylenol maker Johnson & Johnson does not contest the claim. It won't comment on the American Home suit. P&G says that all its claims are true and well supported.

## WEDDING IN CYBERSPACE

Zeitgeist watch: On Aug. 20, Monika G. Liston, 25, and Hugh H. Jo, 33, will tie the knot in what is said to be the world's first virtual-reality wedding. How will it work? The betrothed and a minister will climb into pods at a CyberMind Virtual Reality

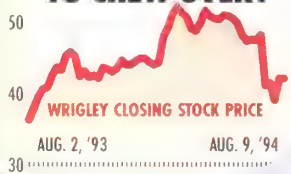
Center in San Francisco, a computerized headgear, and immediately become immersed in a recreation of the lost city of Atlantis—chariot carousels, a palace, dove—you get the idea. Says the bride to be, a CyberMind executive assistant: "We're being married in our ultimate dream place." Tiny CyberMind hopes to get a lot of public relations mileage out of helping make the \$1 million event happen. And you thought Michael Jackson's wedding was weird?

## ET CETERA . . .

- FCC to winners of free wireless telephone licenses: changed our minds. Pay up.
- PaineWebber's Joyce Esterstock was eased out because of mutual-fund losses.
- Talk show host Tom Snyder is coming back, with a show in CBS's post-Letterman slot.
- Economist Martin Neil Baily is Alan Blinder's likely successor on the CEA.

## CLOSING BELL

### AN INVESTMENT TO CHEW OVER?



Wall Street chomped on gum maker Wrigley after a disappointing second-quarter earnings report, cutting its share price nearly \$10, to \$38.25, between July 27 and Aug. 3. But investors already are getting over their disappointment and predicting a juicy future for the company. Wrigley now trades around 42, giving it a price-earnings ratio of 25 times projected earnings of about \$200 million on sales of \$1.6 billion for 1994—50% higher than the average for food company stocks. Why the optimism? Wrigley's overseas prospects are good: It is expanding its plants in England and France and building new ones in Poland and India.

DATA: BRIDGE INFORMATION SYSTEMS INC.

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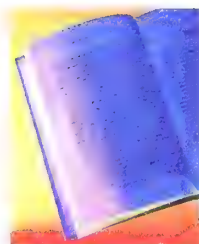
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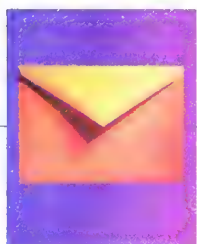
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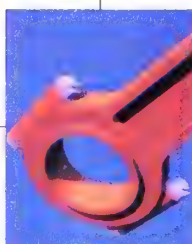
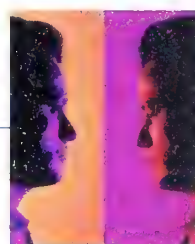


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# FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

## THE COMEBACK KID CAN DO IT THIS TIME . . .

August was going to be President Clinton's month in the sun. He'd bask in the glow of a triumph on health-care reform. Then, warmed by good economic news, he'd some rays in Martha's Vineyard. Well, forget that. Clinton is delaying his beach vacation to attend to higher priorities—health reform—and his Presidency—from sinking in a Washington's political swamp.

It's a huge task. Besides trying to overcome the stench of the eviscerated and thwarted GOP efforts to kill health reform, Clinton must convince Americans that the economy is healthy, streamline his disorganized White House, and prevent a Democratic rebirth in the midterm elections.

Republicans plan to parry his every move. "This is the best political environment for us I've ever seen," crows National Chairman Haley Barbour.

**WING HEADS?** Hoping to prove Barbour wrong, the Clintonites are in damage-control mode. The first objective: Whitewater behind them. Engaged that the congressional hearings were a big snooze, the White House figures the public will soon forget the issue. If the problem lingers, Presidential advisers ad-

visers will sacrifice the Treasury Dept. trio damaged most by the hearings—Deputy Secretary Roger C. Altman, General Counsel Jean E. Hanson, and Chief of Staff Joshua Steiner. "Sad but they're gone," predicts one well-placed source. "It rolling heads won't make Whitewater disappear. Ken W. Starr, a Reagan Administration attorney on Aug. 5 named by a GOP-dominated judicial panel to replace Whitewater independent counsel Robert B. Fiske Jr., and he start the investigation from scratch. If so, Republicans prolong the scandal and use it to bludgeon Clinton in '96. Or now, though, Whitewater is swamped by congressional te on health care, which Clinton sees as his political sal-

vation. He's banking on Democrats to pass a bill—any bill—that he can call a major victory. "A health-care win makes up for all other sins," says an Administration official. "Everything is riding on it." But Republicans smell weakness. Emboldened by ebbing public support for reform, the GOP believes that killing the Democratic plans could be a political plus, even if nothing passes Congress this year.

Republicans are further encouraged by signs that Clinton is not benefiting from the strong economy, despite his efforts to boast about the good news. White House officials complain that the media only emphasize troubling developments such as the falling dollar and rising interest rates.

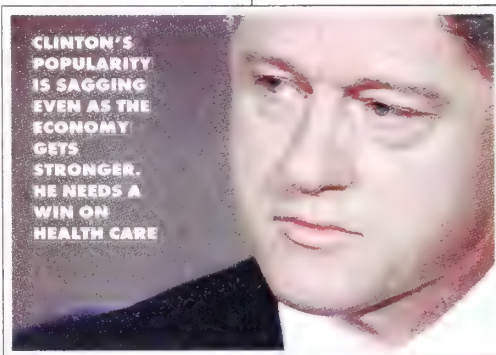
To improve the White House PR operation, Clinton's new Chief of Staff, Leon E. Panetta, may replace Communications Director Mark Gearan and Press Secretary Dee Dee Myers. Panetta is planning other staff changes to make the White House more effective, particularly on Capitol Hill.

At the same time, Panetta is trying to prevent big losses in November. Easing out party Chairman David Wil-

helm and bringing in former California Representative Tony Coelho as a senior adviser to the Democratic National Committee will help. Without that shakeup, the Administration had feared the GOP could pick up 25 House seats and four Senate seats, leaving the Democrats nominally in charge by a thin margin, but with the GOP in ideological control.

Republicans say that would be an ideal outcome: They would dictate the legislative agenda yet be able to campaign in '96 against the Democrats running Congress and the White House. For Clinton, the prospect is a nightmare. No wonder he's working so hard before his vacation. Otherwise, his steamy summer could presage a very cold winter.

*By Richard S. Dunham*



### ITAL WRAPUP

#### FOREIGN POLICY

One sure sign that National Security Adviser Anthony Lake's job is in jeopardy: Aides are calling reporters to insist that rumors about his being canned by President Clinton are unfounded. Staffers say Clinton reassured the former professor in late July that his job was secure. They say the White House plans to raise Lake's profile with appearances on TV news programs and foreign policy speeches in the fall. Still, Lake should not feel too safe. Presidents traditionally back their advisers up until they decide to dump them. Some top Administration officials are betting Lake will be gone by

year's end. One official says that at a recent White House meeting, "The President looked annoyed every time Tony spoke."

#### CONGRESS

**B**anks and other creditors pushing bankruptcy reform may have to reorganize themselves. Bankruptcy law changes have been stalled by House Judiciary Committee Chairman Jack Brooks (D-Tex.), who is preoccupied with health-care reform and a crime bill. The Senate has passed a measure curbing abuses of the system—such as endless extensions for companies to reorganize. But unless bank lobbyists regroup, the bill may die in the House.

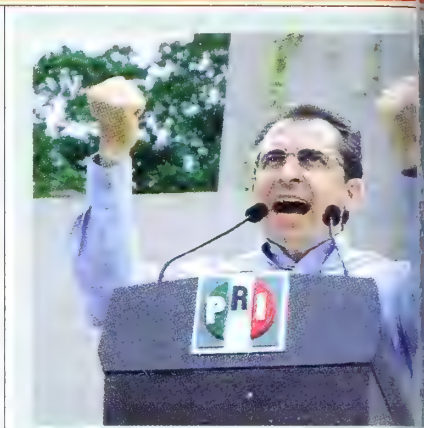
#### POLITICS

**C**all it the "O. J. factor." Worried that the Simpson murder trial will monopolize California's news coverage this fall, Democratic strategists are rethinking tactics for the state's tight U.S. Senate race. Senator Dianne Feinstein may blast GOP challenger Representative Michael Huffington with heavy fire in early September, rather than risk an October offensive that might be buried by O. J. media mania. Feinstein's advisers also are thinking of buying commercials during the trial, which is likely to generate huge ratings in the Golden State. The main campaign issue? What else—crime.



# MEXICO

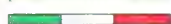
## HOW THE ELECTION WILL RESHAPE THE ECONOMY



**B**ricia Hernández, a 35-year-old mother of two, lives in the Valle de Chalco slum area just outside of Mexico City, home to 1 million people. One recent morning, Hernández trudged through her dust bowl of a front yard, maneuvered past the family outhouse, and dumped an armload of school supplies she hoped to sell on a ramshackle wooden counter. To reach

### CARDENAS

Many believe he actually won the last presidential vote



her makeshift shop, schoolchildren must tiptoe across a putrid, open sewer littered with abandoned tires, rat

carcasses and huge green puddles of human waste.

But then they clamber up onto a brand-new cement sidewalk. It was partly paid for by the National Solidarity Program, the Mexican government's self-help antipoverty plan. Bricia and her shoemaker husband, who together earn slightly more than \$400 a month, had to pay \$60 for the section in front of their two-room shack.

**"REAL DEMOCRACY."** Chalco is supposed to be a showcase for the government's fight against poverty—it's where Solidarity was born when President Carlos Salinas de Gortari took office six years ago. But instead, it may symbolize what went wrong with Salinas' tough econom-

ic policies: He underestimated the pent-up demands of the country's poor, who account for nearly half of Mexico's population of 85 million.

### ZEDILLO

The technocrat is an awkward campaigner—but may triumph



The new Mexico is impatient. Mexico's poor and underemployed are longer content with occasional handouts such as sidewalks in the middle slums. They're demanding major improvements in the quality of their lives. For growing numbers, that means new political leadership. "What we want is real democracy," says Hernández. "People don't want more of the same."





## IF PRI'S ZEDILLO WINS:

**ECONOMICS** Mastermind of Mexico's pet surplus, Zedillo will continue on track, going ahead with privatization and wooing foreign investment.

**POLITICS** For first time ever, PRI will not a rubber-stamp Congress. Legislation will require compromise.

**SOCIAL ISSUES** Zedillo will pump more resources into the Solidarity program and infrastructure projects in poorest states.

## IF PAN'S FERNANDEZ WINS:

**ECONOMICS** Will continue free-market reforms, but may be less rigid in their application. Sensitive to foreign investors.

**POLITICS** Prospects of gridlock fairly high. May enjoy brief honeymoon period, but ultimately will have trouble pushing legislation through congress.

**SOCIAL ISSUES** Will pay more attention to the poor, but some worry that the devout Catholic will usher in a conservative, perhaps intolerant, era.

DATA: BUSINESS WEEK

## IF PRD'S CARDENAS WINS:

**ECONOMICS** Cárdenas believes in greater state involvement in business and industry. Wants to renegotiate parts of NAFTA. Foreign investors would be skittish.

**POLITICS** Legislation would be actively blocked by the PRI and PAN alike, creating legislative gridlock.

**SOCIAL ISSUES** Would spend more on the poor, even if that risked aggravating inflation.

that challenge to the country's entrenched political elite is fueling tensions as the Aug. 21 presidential election approaches. Alarmed by the rebels in Chiapas, whose guerrilla movement dramatized the plight of millions of poor Mexicans, the government has promoted the cleanest balloting ever held. Eyes from Mexican watchdog groups, hordes of international observers will be on hand to spot any attempts by the ruling Institutional Revolutionary Party (PRI) to fraudulently extend its years in power. What Mexicans are demanding, in effect, is a new deal. "The PRI has been married to the state too long," says noted Mexican historian Enrique Krauze. "We need to be-

come a normal democracy in every sense."

Because of that growing sentiment, the PRI almost certainly will not win a majority for the first time since its creation in 1929, and it could even lose. Top government sources, citing official polls and a new independent survey, predict the PRI will win around 43% of the vote—enough to maintain what they call "governability." But other polls show the vote more evenly split among the three main candidates, with at least one-fifth of Mexico's 45.7 million eligible voters still undecided. If no party wins outright, whoever emerges with a mere plurality will face tough negotiations to get legislation approved—

unlike the current PRI-dominated Congress that rubber-stamps every Salinas initiative.

Salinas, aware that his place in history depends on a peaceful transition of power, has pledged to turn over the presidential sash to whomever wins. But if PRI candidate Ernesto Zedillo Ponce de León, a career technocrat with a doctorate in economics, wins with less than a convincing, fraud-free margin, the opposition could protest the results and demand new elections. The guerrillas still at bay in the Chiapas

### PAN BACKERS

After faltering, Fernández has regained momentum



ILLUANA NIETO DEL RIO/IB PICTURES



rain forest also could stage violent disruptions. All of which could spell months of wrangling until a successor takes office on Dec. 1.

Such an awkward political transition could rattle Washington, which advocates greater Mexican pluralism—but fears instability. It could spell frustration for U.S. companies trying quickly to reap the opportunities offered by the North American Free Trade Agreement (NAFTA). And it means that investors also must continue to tread carefully. Although some foreigners have returned to Mexico's stock market betting on a conclusive PRI victory, others have switched en masse from peso-denominated Mexican treasury bills into dollar-denominated bills called Tesobonos, hedging against a possible devaluation of the peso.

No matter which party wins, foreign investors will discover that the next President must rule Mexico differently. A more assertive Congress will weaken his ability to dictate policy as Salinas did through the *pacto*, one of his biggest weapons against inflation and budget deficits. Salinas used the *pacto* to force business and labor to agree on annual wage and price goals. Without that discipline, labor could now push hard for higher wages, and business may demand subsidies or a slowdown in tariff reductions. "Eventually there will not be a place for the *pacto* in a democratic society," says economist Rogelio Ramirez de la O.

**PILLAR OF GROWTH.** Although this new political order may prove unsettling at first, in the long term it's essential for the country's development. Yes, the urgent need to spend more on social needs may result in a slight budget deficit of 1% or 2% of gross national product, which could put pressure on a peso that is already thought to be overvalued by some 20%.

## HERNANDEZ

The government's antipoverty plan left his neighborhood little changed



But Mexico won't veer too far from the path that Salinas has carved out—because it can't. NAFTA is locked in, and foreign investment is universally acknowledged as a pillar of growth. None of Mexico's leading parties is advocating a return to the antiforeign days of old. In fact, with finances tight, Mexico may be forced to take its reforms further, raising cash for its social spending by opening new investment opportunities to foreigners in such sensitive industries as electricity, oil, and broadcasting.

By addressing some of the pain in-

flicted on groups ranging from small business owners to farmers to workers, the new order could set the stage for a more stable Mexico over the long run. All three main parties have pledged to build more schools and health clinics, especially in under-served rural areas. They all call for major spending on such job-intensive infrastructure projects as highways and low-cost housing. Government incentives would stimulate creation of new industrial zones for small-scale manufacturing plants in the country's poorest states, such as Chiapas. Funding for the Solidarity program would be dramatically increased.

**RAGTAG ARMY.** But before the economy can recover from slow growth (charts) and achieve a stable new course, both domestic and foreign investors will have to be convinced that Salinas' successor can manage. "We're expanding our office and increasing our exposure in Mexico,

but it's all contingent on a favorable outcome to the elections," says one foreign banker.

Just eight months ago, few would have dreamed that the PRI could face any danger of losing. Salinas was celebrating NAFTA's approval and was preparing to join the Organization for Economic Cooperation & Development (OECD), the club of industrialized nations. Then came the Chiapas rebellion, which the masked Subcommander Marcos led a ragtag army of some 2,000 Indian peasants.

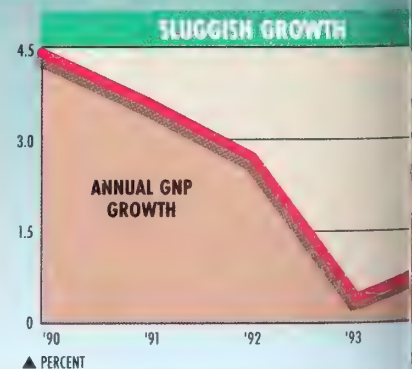
Because of that revolt—and the shock accompanying the murder of PRI presidential candidate Luis Donaldo Colosio a few months later—Mexico has undergone dramatic political reforms. Among them: the naming of six prominent, non-partisan citizens to run the Federal Electoral Institute, which oversees elections. "Democracy is essential for the



## THE ECONOMIC CHALLENGES

*No matter who wins the elections, he will have to heal some of the economic wounds that have opened up during Mexico's dash for growth*

DATA: FINANCE SECRETARIAT, BANCO DE MEXICO, UN ECONOMIC COMMISSION FOR LATIN AMERICA & THE CARIBBEAN, BUSINESS WEEK ESTIMATES





omic development of Mexico," says Iago Creel Miranda, 39, a prominent corporate lawyer who is one of the dozen overseers.

me of the businesspeople who have struggled to keep pace with the government's economic reforms also think the country's political class needs to take a dose of its own medicine: competition. "It's like free enterprise—you have competition in politics and government, too," says Hermann Mergenthaler, 32, who employs 50 people at a family-owned fiberglass molding company and nautical equipment distributor in Mexico City that has \$1 million in annual sales.

ergenthaler says Salinas' accomplishments in taming inflation and opening markets were good for Mexico but so much so that now it is time for a softer touch. Four years ago, for example, Mergenthaler's company had to stop manufacturing fiberglass boats when imported watercraft grabbed most of the

market. More recently, lower tariffs have flooded Mexico with Brazilian-made Mercedes-Benz buses, drastically reducing the market for Mexican-made buses that he supplies with fiberglass parts. "Small businesses like us are really hurting," Mergenthaler says. He hopes the next government will lower interest rates so he can invest in more modern equipment.

**"ARM-TWISTING."** A microcosm of how Salinas' policies have brought progress—but at a cost—is the state of Aguascalientes. Located in Mexico's geographic center, the state has attracted impressive levels of foreign investment by advertising itself as a business-friendly environment "where there hasn't been a labor strike in 30 years," as Governor Otto Granados Roldán proudly notes. But the reason labor dissent doesn't exist is because it's not allowed. "Sometimes a little arm-twisting is in order," says one state official.

The strong-arm tactics are applied to

the political opposition as well: When the Party of the Democratic Revolution (PRD) organized a rally in Aguascalientes for opposition presidential candidate Cuauhtémoc Cárdenas in May, they found that the 15 buses they had contracted to bring in the party faithful were suddenly unavailable. Telephone service to a radio station was cut just when Cárdenas was scheduled to participate in a call-in talk show.

Most foreign investors are unaware of the opposition's complaints: All they see is an apparently stable investment climate. Nissan Motor Co.'s state-of-the-art auto-assembly plant, built at a cost of \$1.2 billion, today employs 5,000 and exports finished vehicles to Japan. Dozens of other industries have set up shop: Izod golf shirts and clothes for GapKids and Dillard's Department Stores are made in town. Xerox Corp. has a huge plant manufacturing copiers and fax machines, and Texas Instruments Inc. produces integrated circuit boards.

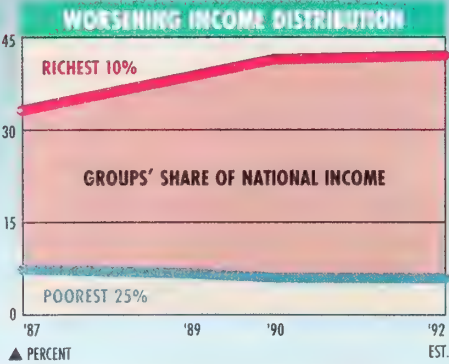
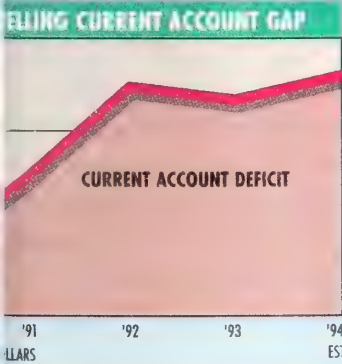


The new factories have turned Aguascalientes into a boom town, attracting tens of thousands of workers from other states to the slums around the city. Priest Francisco Ibarra has seen the number of slum inhabitants more than double, to 20,000, during the past four years. Overall, wages are a bit higher than in other parts of Mexico. "But what they've done is create two Aguascalientes—one of the haves, and one of the have-nots," he says. There are only two telephones for those 20,000 slum dwellers. And though huge, low-cost housing tracts are going up on nearby hillsides, few slum residents could pay a mortgage.

**STINGING INDICTMENT.** So Ibarra has been handing out flyers urging his parishioners to vote. At first, they asked him: "Why should I bother to vote, if the PRI always wins?" Now, says Ibarra, "they're telling me that maybe this time, their vote could make

a difference—that maybe the outspoken guy with the beard could win."

That "guy with the beard" is Diego Fernández de Cevallos, 53, presidential candidate for the center-right National Action Party (PAN), who soared to the top of opinion polls in May after a stunning performance in the first televised presidential debate ever held in Mexico. Thirty million Mexicans watched as Fernández, a skilled criminal lawyer, issued a stinging indictment of Salinas' policies, which former Cabinet minister Zedillo helped implement. Turning to Zedillo, Fernández said: "We know you're a





# Everything

With four out of five Accords being made in America, the future has never looked better. The new Accord Sedan from Honda is more aerodynamically beautiful than ever.

However, a closer examination reveals that this Accord is unlike any you've ever seen before. Everything about it has changed, with all-new technology.

Testing showed how changes in the body's internal structure could reduce road noise. So we added high-tech baffling materials. It's very quiet.

To make the Accord stronger, we reinforced the outer body panels with thicker steel and we added steel beams and pads inside the doors. It is easy to see why the new Accord meets the federal side-impact standards for 1997, three years early.

While we're on the subject of safety, you'll find that driver's and front passenger's airbags SRS are standard. The Accord EX, here, even includes a refined anti-lock braking system (ABS). Which, of course, is also available on the LX and DX models.

The compact 2.2 liter, 16-valve

engine in the new Accord will be a topic of engineering lectures for years to come. The version in DX and LX models produces 130 horsepower, while the EX model develops 145 horsepower, the most ever in an Accord. Both are

After computer analysis of how our automatic transmission shifted, our engineers designed a new transmission so smooth and quiet that you will hardly notice when it changes gears.

A computer inside the new



fuel-injected and feature Honda's innovative second-order balance system that cancels vibrations that cause other engines to twist and shake. Both are very smooth.

You'll find a new version of our Variable Valve Timing and Lift Electronic Control system (that's VTEC for short) increases both power output and fuel efficiency in the Accord EX engine.

Accord's transmission uses an advanced Grade Logic Control System that can detect special driving situations, such as hills, stop-and-go traffic. Automatically it then changes the transmission shift points for the best possible performance. For example, it knows when the Accord is going uphill and shifts to third gear for more pulling power.

# se is history.

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well. Their concave design frees  
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front, a padded center armrest  
with storage is ideally positioned  
for driver and passenger comfort  
in the new Accord.

Honda engineers wrote the  
book on ride and handling. The  
Accord adds yet another chapter.  
Its four-wheel double wishbone  
suspension system expertly  
soaks up bumps, dips and rough  
pavement without sacrificing

responsiveness or agility.  
You'll find that it tracks  
steadily and accurately  
through tight curves and  
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immediately to steering  
inputs from the driver.  
At highway speeds, you'll  
feel more comfortable  
and in complete control.

But since you need  
to feel the road, we have  
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this. As you turn the  
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amount of power assist. It never  
feels unnecessarily heavy, numb  
or over-assisted.

The Accord has always had a  
history of sending everybody  
else back to the drawing board.  
With the new Accord, history is  
bound to repeat itself.

## A Car Ahead

HONDA



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The new instrument panel is  
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layout. It gracefully wraps around  
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to reduce irritating glare. Gauges  
are large and easy to read. And  
switches are right where they  
should be. The center console is  
slanted to improve your access  
to heater and ventilation controls  
and audio components.



good boy who got good grades, but your plan has left 40 million people in poverty." Mexicans had never seen a PRI candidate so publicly skewered.

Fernández, known as "El Jefe Diego," or "the Boss," virtually disappeared from the campaign trail in July, perhaps taking time to reflect on what a PAN victory might mean. Party sources say he is all too aware that he might be hamstrung as President, forced to negotiate support from the PRI on almost all policy issues, and dogged by opposition from the left-leaning PRD.

## MYSTERIOUS BREAKDOWN.

If elected, Fernández would likely continue along much the same economic path as Salinas, and he has said he might keep some of the same key Cabinet members to reassure the business community. In fact, the PAN might go further than the PRI could in some cases: Fernández has said he favors privatization of part or all of Pemex, the national oil monopoly.

Cárdenas, the 60-year-old son of legendary President Lázaro Cárdenas, has run a largely lackluster campaign as the PRD's candidate. Back in 1988, Cárdenas staged an independent run for the presidency. Many Mexicans believe he actually won the vote: Government

computers mysteriously broke down on election night, and Salinas was proclaimed the winner, with 50.3% of the vote. Since then, Cárdenas has done several about-faces on policy matters and now supports the broad principles of NAFTA and privatization. "The country's circumstances have changed, and our priorities are different now," Cárdenas explains during a campaign stop in the small town of Matehuala, in San Luis Potosí state. But he still believes in

greater state control over industry and wants to renegotiate parts of NAFTA.

Even if Cárdenas isn't likely to win, his campaigning in places such as Matehuala has helped spotlight urgent needs. Standing at a makeshift podium on the back of a truck, Cárdenas tells a crowd of around 1,000 poor *campesinos* that Mexico needs more jobs. A group of women who had traveled an hour from their village to see Cárdenas couldn't have agreed more. Their village is virtually empty of men, who have all left for jobs on the border or in the U.S. Laments Elida Torres, 29, a divorced mother of four: "The boys leave school, and there's no work."

Few would argue that Zedillo, 42, with a doctorate in economics from Yale University, is underqualified to run the

country's finances. But he may lack political skills that Mexico's next President will need to balance fiscal and social concerns. He is an awkward campaigner whose speeches drone on with dry, 10-point programs of action for every conceivable issue. "I agree that he comes across as a technocrat, a real nerd," says one top party official. "But no one doubts that he has concrete proposals to solve the country's problems."

No matter which man wins, the broad outlines of Mexico's future economic course are largely charted. What will change, however, is the pace and manner with which the government pursues its strategy. "There's a remarkable consensus on what the agenda of the new administration should be," says David Baer, director of Mexico studies at the Center for Strategic & International Studies in Washington. "The macroeconomic house is in order, and now there will be more emphasis on the micro." In her view, that means significantly more investment for social needs such as education and health, and on infrastructure such as roads, ports, and telecommunications.

The trick will be to spend more on these programs without aggravating inflation, pressuring the peso, or discouraging foreign capital flows. In short, to keep the Mexicans happy at the same time that foreign investors are hap-

**T**he economic agenda. More support for small businesses, poor regions, education, and infrastructure



## THIS WATCHDOG HAS A BODYGUARD

It isn't easy to be an election watchdog when you're watching yourself for a possible assassin's bullet—that's exactly what Sergio Aguayo is doing. Aguayo, 46, one of the top leaders of Civic Alliance, a coalition of grassroots groups that are monitoring Mexico's Aug. 21 election, received a chilling, typewritten death threat several months ago warning him not to get far in his campaign for fraud-free elections. Taking the threat seriously, he accepted a government offer of protection and is now accompanied 24 hours a day by three armed bodyguards.

### AGUAYO

His organization, Civic Alliance, is training as many as 12,000 official election observers

Election in Mexico at this year's presidential vote is especially dangerous with tens of thousands of assassinations



## PAS REBELS

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In the end, what the August elec-  
tions represent is a search to find a  
new balance as the country enters a  
second, crucial stage of its dash for  
prosperity. Even if the PRI wins, the  
country will never be the same. Mexico  
is undergoing "twin transitions toward  
an open economy and a competitive,  
pluralistic political system," says a sen-  
ior Clinton Administration official. "If

Mexico can pull this off, it will be one  
of the great international success sto-  
ries of the late 20th century." That's  
why the task of building a new democ-  
racy—brick by brick—is one in which  
the U.S. and the world at large have a  
vital stake.

*By Geri Smith in Mexico City, with  
Elizabeth Weiner in Aguascalientes and  
Elizabeth Malkin in Matehuala*

ries to the PRI. At least 13 other civic  
groups are also planning to send observ-  
ers into the field on election day, includ-  
ing the Mexico City Rotary Club and  
the Mexican Employers' Confederation, a  
leading business group. By some esti-  
mates, there may be as many as 150,000  
Mexican observers watching the vote—  
plus several hundred foreign "visitors,"  
who will be allowed to monitor the elec-  
toral process without making any official  
judgments on it.

**"SKEPTICAL" VOTERS.** To Aguayo, this is  
proof that Mexicans finally are gaining  
control of their society after years of PRI  
domination. There are today more than  
400 grassroots organizations aimed at  
defending housing rights, the environ-  
ment, and most recently, electoral rights.  
Civic Alliance was formed after last  
November's controversial gubernatorial  
balloting in Yucatán state, when it be-  
came apparent that the only way to com-  
bat fraud was to have election observers  
on hand.

Aguayo, a professor at the Colegio de  
México whose specialty is U.S. foreign  
policy and security issues, compares Mex-  
ico's struggle to achieve free elections

with the U.S. civil rights crusade. "The  
rise of civil society in a country takes  
years," Aguayo reflects. "When you  
study history, you realize that big histor-  
ic moments are made up of many small  
moments. I know that what we're doing  
right now could have a big impact on  
Mexican history."

Aside from election observers, at least  
nine organizations plan to carry out  
"quick count" tallies of the balloting to  
compare with official voting returns. The  
Mexican Chamber of Radio & TV Net-  
works has employed prominent U.S. poll-  
ster Warren Mitofsky, who has moni-  
tored American elections for the  
networks for 27 years and who also has  
undertaken quick counts in Russia and  
the Philippines. "I'm amazed by how  
skeptical Mexicans are about the validity  
of poll-taking and about the election re-  
sults themselves," Mitofsky exclaims.  
"I've never seen such skepticism any-  
where in the world." That's because Mex-  
ico has a long history of unbelievable  
outcomes. But with groups such as Civic  
Alliance watching, all that could be  
changing.

*By Geri Smith in Mexico City*





## PSST! WANNA BUY A USED STEEL PLANT?

Japan breaks a taboo by selling off equipment to Asian rivals

**W**hen word got around that Manila-based National Steel Corp. planned to build an integrated mill in Cagayan, senior supervisor Noel Lagan was besieged by Japanese companies offering to supply billions of dollars' worth of equipment. What they were hawking, he says, was not shiny new machinery but used equipment from Japan's growing backlog of idle production lines. Among those on the prowl for buyers are famous names such as Mitsubishi Steel Manufacturing, Sumitomo Metal Industries, and Kawasaki Steel. "You better believe they are aggressive," says another Philippine steel executive. "They know our requirements and approach us with deals."

Driving this campaign to unload second-hand machinery abroad is a staggering \$206 billion worth of excess Japanese production capacity, according to Industrial Bank of Japan Ltd. This vast array of idle equipment, from textile machines to cement plants, has been

accumulating for four years, since Japan's bubble economy burst and put an end to its biggest-ever capital spending binge.

The hangover is all the worse because Japan is undergoing a transformation from an Asian dynamo to a more mature economy, with jobs shifting from manufacturing to services. Says Dick Beason, senior Tokyo economist for James Capel Pacific: "All those people who were saying Japan was unique are disappearing into the woodwork." Many Japanese managers can wait no longer for a recovery to bail them out—so the fire sale is on.

Nippon Paper Industries, for example, plans to shut down six of its 60 mainstay paper machines this year and is looking for buyers for them, as well as

for coating and spooling equipment. In June, Sony Corp. shipped 12 machines for stamping parts onto circuit boards in a joint venture in Indonesia.

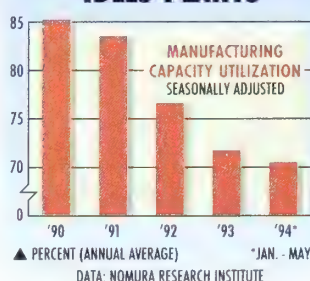
What the pileup of idle machinery and the push to unload it—signify a radical rethinking of capital spending practices. A slower-growing economy may spell the end of the frequent factory upgrades that have helped Japanese companies keep ahead of foreign rivals. **UP ON THE BLOCK.** The sales of plants to potential competitors also signal a shift from Japan's former island-fortress business mentality. Tokyo-based corporate lawyer Lynn Pickard recalls just a few years ago watching a Japanese executive being harangued by a TV newscaster selling some of his factory's used equipment overseas. "It was like there was something unpatriotic about it," Pickard says.

These days, even the Japanese government is giving a hand in the sell-off. The Ministry of International Trade

Industry has been pushing the idea of selling some excess petrochemical installations in China. Industry sources expect an ethylene plant of Mitsubishi Chemical Corp., to be formed by a merger in October, to go on the block.

Also helping companies hawk used equipment is the Japan

### JAPAN'S SLOWDOWN IDLES PLANTS





tional Development Organization, an arm of the business federal Keidanren. JIDO is negotiating a deal with Toyo Rayon Co. to sell \$30 million worth of spinning machinery to a company in Uzbekistan.

to tap the lucrative business potential by brokering such deals, trading giant Sumitomo Corp. early this year set up a joint venture with Pittsburgh's Tippins which buys and refurbishes steel-making equipment and resells it. Sumitomo has identified about 20 mills in China and Southeast Asia that are selling or scrapping equipment, and Tippins hopes to make its first deal as a result of the joint venture within six months. Meanwhile, Sumitomo has gotten inquiries from Japanese companies hoping to sell everything from auto assembly lines to chemical plants.

In spite of the flurry of plant sales, existing used machinery is still a touchy subject. Says Keinosuke Yamada, a Sumitomo manager who is helping with the joint venture: "There is often a concern that after the equipment is sold, it will be used to make stuff that will be sent back to compete in Japan."

**BIND.** The fears run deeper than that. With Japanese companies pouring \$1 billion a year into direct investment in China, corporate captains are warning that the nation's industrial base may be hollowing out. And keeping employment high is a sacred cow for major Japanese companies. So far, they have been shifting excess workers to affiliates and lending them to other companies rather than firing them.

Such policies put Japanese industry in a bind. Susumo Kato, an economist at CSIS in Boston (Japan), says it may be years before there's much improvement in Japan's current capacity utilization of 70% in manufacturing (chart). Next year, Japanese companies may see a rise in profits—which will help cover the costs of closing down more lines. But events may be overtaking such gradual adjustments. For the first time in modern history, industrial capacity is over the past two quarters. With the domestic economy slowing to a standstill, just as the high yen is braking export-led growth, more radical remedies may be needed.

That's why Japanese companies are coming to their aversion to packing up their machinery off to distant lands. The former taboo against such moves "is rapidly losing force," says Sumitomo's Toru Umehara, another man involved in the Tippins venture. If the taboo is falling, can lifetime employment be far behind?

*by Larry Holyoke in Tokyo, with Keith Alexander in Pittsburgh and Teresa R. in Manila*

## STILL CLIMBING IN ASIAN SKIES: BOEING

It's driving to head off rivals in the world's fastest-growing market

**A**ug. 8 is a day of good luck on the Chinese calendar, and for Boeing Co. that's certainly the case. On that date, the giant planemaker announced a \$100 million plan to build a major presence in China, complete with a new headquarters, a large spare-parts facility, extra training programs for Chinese air crews, and a deal to buy fuselage sections for the 737 from local manufacturers.

Boeing is upping the ante in Asia, the fastest-growing market for aircraft in the world. Last year, Asian carriers bought Boeing planes worth \$8.7 billion, 34% of its total revenue, up from 18% in 1991. Boeing predicts that 40% of

not waiting for that to happen in the Pacific Rim. The competition is already heating up. Although Airbus has sold only 35 jets to China so far, vs. 167 for Boeing, it plans to invest \$25 million in maintenance, training, and spare-parts facilities in China. In June, Airbus won a \$1.8 billion order from Singapore Airlines Ltd., and Hong Kong's Cathay Pacific Airways Ltd. has become a big buyer of its A340 jumbo jets. "Asia is becoming critically important for Airbus," says John J. Leahy, Airbus North America's president, who will soon head the parent company's worldwide sales and marketing.

Then there's the potential threat from



HEADING WEST: CUSTOMER-READY 747s

### BOEING'S ASIAN PUSH

#### MANUFACTURING

Boeing is outsourcing the production of big parts of the 737, 767, and 777 to China and Japan. It may develop a 100-seater with both countries.

#### SERVICE

Boeing is building a large new spare-parts center in Beijing, increasing service bases in China from 6 to 16, and training Chinese air crews.

#### SALES

Boeing estimates Japan and China will buy \$136 billion worth of aircraft from all suppliers through 2014.

SOURCE: COMPANY REPORTS, BOEING WEB

future air-traffic growth will come from Asia-Pacific travel, and it wants those passengers to fly on Boeing jets.

So the planemaker is wooing the Chinese and Japanese with joint-manufacturing deals, offering special assistance in training Chinese crews, and even discussing the prospects for a jointly designed and built American-Japanese-Chinese plane—all to lock out any European, American, or even Asian threat to its hegemony.

Boeing's Asian market share already surpasses 60%. But it has seen its archrival, Airbus Industrie, grab away share in Europe and the U.S., and it's

the Asians themselves. True, no Asian aerospace company can compete with Boeing or Airbus yet. But the Chinese are building and selling 50-seat commuter jets, and the Japanese have the technology knowhow to construct even bigger airframes.

**HEAVY METAL.** To keep the fate of Asian aerospace in its hands, Boeing is steadily broadening its relationship with Japan's three major players, Mitsubishi Heavy Industries, Kawasaki Heavy Industries, and Fuji Heavy Industries. The Japanese "heavies" make 15% of the airframe of the Boeing 767 and 20% of Boeing's newest plane, the 777. Eu-



Europeans believe the Boeing strategy helped to ensure its dominance in Japan, where Airbus has landed only 60 orders, from two airlines and a leasing firm.

In China, Boeing has also grabbed the lion's share of the market, but it has been slower to help China's aircraft industry. McDonnell Douglas Corp. jumped in early on, agreeing in 1985 to produce 25 narrowbodies jointly in Shanghai. In 1992, Boeing competed for a project to build planes for regional routes but lost to McDonnell.

But Boeing has kept at it, gradually building close relations with two state-owned factories in Xian and Shenyang. Since 1980, Boeing has bought more than \$100 million in parts from China, starting with doors and working up to more complicated tail fins. Now, Boeing has placed its biggest order yet: 100 rear-body sections to be built by Xian for the 737, currently built by Boeing in Wichita.

**LOCAL SUPPORT.** The deal should widen Boeing's lead in the China market, which already purchases 25% of its production of 737s. "There's no question, in many countries, there's a need to show a willingness to support their industries," says Richard Albrecht, Boeing's executive vice-president for sales and marketing.

By working so closely with the Japanese and Chinese, Boeing is taking a risk that it may be helping to develop future competitors. Yet so far, the Japanese have been satisfied with the role of partner, and the Chinese have a long way to go before they could be serious rivals.

Such concerns haven't stopped Boeing from entering a potentially bigger phase of cooperation with the Asians: co-developing an all-new plane. Since May, Boeing has been holding intensive discussions with Japanese and Chinese suppliers about designing and producing an 80- to 100-seat jet to serve short-haul markets. China would be a huge market for such planes, since it is building or upgrading airports in 30 cities, and air traffic recently has been growing close to 30% a year.

The talks are in an early phase, and the Japanese have also been discussing development of a 70- to 100-seat plane with the French-Italian aerospace consortium ATR. Japanese officials insist that the Europeans are not out of the race, but an ATR spokesperson admits that Boeing appears to have the edge. So far, Boeing's luck in Asia is holding.

*By Dori Jones Yang in Seattle, with Stewart Toy in Paris and bureau reports*

## NIGERIA

# WILL CHAOS IN LAGOS SEND OIL PRICES SPURTING?

As workers strike to oust the generals, output plummets

**A**s the confrontation between striking oil workers and the military government enters its seventh week, Lagos is on the verge of collapse. The banks have been shut down for a week. Drivers spend as much as four nights waiting in line to buy fuel for \$12 a gallon from profiteering soldiers.

The effects of the strike are being felt far beyond the steamy Nigerian cap-

ital. The loss of 25% of Nigeria's usual output of 2 million barrels per day has helped fuel the recent runup in oil prices. The price of a barrel of light, sweet crude for September delivery has risen from below \$14 in March to more than \$20 a barrel in early August. "It's keeping the momentum alive, keeping the bullish psychology going," says Lawrence J. Goldstein, president of Petroleum Industry Research Foundation Inc. in New York.

**TREASON?** Goldstein estimates that the situation in Nigeria is adding \$1 a barrel to oil prices. The market is now very sensitive to news from Nigeria. With world demand rising and supplies tight, prices could surge if output tanks. Yet a labor settlement

could lead to a plunge in prices. "The bad news is factored in, so the trader had better watch his back," says Fareed Mohamedi, an analyst at Washington-based Petroleum Finance Co.

Traders are closely monitoring the travails of Moshood Abiola. The multimillionaire businessman from the southwest was elected President in June, 1993, but the military barred him from taking office. His jailing this June on charges of treason sparked the strike.

The oil workers demand Abiola's conditional release, but they see chance to accomplish something bigger. Joining with pro-democracy activists, they are out to topple the military rulers, who are widely viewed as having grossly mismanaged Nigeria's economy. The unions want to get the oil industry out of corrupt hands. They also insist that the government pay \$800 million in arrears it owes Ro-

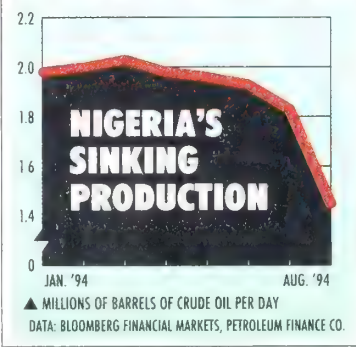
Dutch/Shell Group and other international companies for costs of joint ventures. The arrears, they say, are souring the international majors' view of Nigeria, discouraging investment, and threatening jobs. "We demand the exit of the military so that confidence and economic progress will return to our country," says a workers' statement.

**SHELLED.** To date, the strike has hit Shell—the largest producer in Nigeria—hardest. The company says it is losing at least a third of its usual production of 920,000 barrels per day. Other companies including Agip, Mobil, and Chevron, are also suffering cuts.

The military has tried to split the pro-democracy forces by offering Abiola b-

and trying to cut a deal to oil workers. So far, nothing has worked. Even if a short-term solution is found, the situation is likely to stay explosive. There are deep and growing cleavages between the northern military elite and the south, where oil is produced. What likely is a long power struggle that will give the oil markets a lot to think about.

*By Maduka Ugwu in Lagos, Stanley Reed in New York, and Julia Flynn London*





## INDS ACROSS THE TAIWAN STRAIT—BUT HOW FAR?

Only a few weeks ago, relations between Taiwan and China seemed to be deteriorating quickly. After the suspicious deaths of 24 Taiwanese near Shanghai, groups boycotted China and politicians denounced Beijing. In a gesture of defiance, Taipei refused during a July typhoon to allow 900 Chinese fishermen working illegally on Taiwanese ships to come in off the high seas. Ten of them subsequently died.

Helping to change that climate was an August visit to Taipei by Tang Shubei, vice-chairman for Beijing's quasi-official Association for Relations Across the Taiwan Strait. Tang and his Taiwanese counterpart, Chiao Jen-ho, wrapped up agreements on illegal Chinese immigration, repatriation of hijackers, and human rights. These first significant steps since 1949 signal a new era of cross-strait relations.

**TO NORMALCY.** Taiwan's strategy to get Beijing to treat it like a normal country. China has long threatened to do so if Taiwan declares formal independence. Yet by signing the agreements, the Chinese have tacitly admitted that Taipei is a separate entity. "The more high-level negotiations between the two sides, the more separate identities become as two individual nations," says K. S. Professor at National Chungchi University in Taipei. Be sure, some of the biggest issues have yet to be addressed: Taiwanese want investment guarantees to protect the \$3 billion they have put into China, while Beijing covets direct transportation links with Taiwan. While neither side is likely to yield quickly, the trend toward normalization of relations is likely to continue. They are being pushed by growing economic ties, including bilateral trade estimated at \$3.7 billion through May of this year, up 9% over 1993. "A symbiotic relationship is inevitable," says C. J. Lee, director

of the Mainland China Economy Institute in Taipei.

But don't look for Taipei to embrace Beijing enthusiastically. With local elections slated for later this year and with President Lee Teng-hui scheduled to be tested in 1996, the ruling Kuomintang doesn't want to alienate voters deeply suspicious of Beijing. Such feelings led to violent protests over the Chinese negotiator's presence. As it moves closer to China, the KMT will, therefore, continue to guard its independence by pressing for admission to the U.N. and building international alliances.

Renewed U.S. interest in Taiwan may make it easier for the two Chinas to reach an understanding. The Clinton Administration

is reviewing policy toward Taiwan and could soon allow Cabinet-level exchanges and other symbolic gestures. By giving Taipei a sense of security, these moves could allow it to take more chances bargaining with Beijing.

That's what Taiwan's business community wants. Executives, who must now travel to China through Hong Kong or another third country, want direct transportation links as much as Beijing does. Government-

run Taiwanese enterprises want an end to the ban on state-sector investment in China. Despite predictions that Taiwanese ardor for China would cool, many of the island's biggest companies see success there as the key to their global competitiveness.

More talks are scheduled for next month. With elections four months off, Taiwan will likely want to bide its time. But the new spirit of cooperation has already helped hundreds of illegal Chinese fishermen sleep easily: During Tang's visit, another typhoon slammed the island—but this time, Taipei allowed the Chinese into port away from the storm.

*By Margaret Dawson in Taipei, with Bruce Einhorn in New York*



TAIPEI TETE-A-TETE: TANG SHUBEI WITH CHIAO JEN-HO

### AL WRAPUP

#### ULT TO GO

xious to rejuvenate a faltering privatization program, France is to sell a big chunk of state-owned maker Renault by yearend. Insurance had been next in line, with politically sensitive Renault expected to go until after next May's presidential election. But the car producer, which achieved a strong turnaround, is expected to excite investors more because financial services companies have fallen out of favor. BNP, Matra-Hachette, Elf Aquitaine are likely to buy shares in Renault under France's policy of jettisoning "hard cores" of friendly holders.

#### FRENCH FARM PLOT

**F**rance, reputed to be the European Union's cleverest member when it comes to Brussels politics, is at it again. Its squeaky-wheel tactics on the recently completed world trade agreement won big concessions for its heavily subsidized farmers. Hoping to extend the winning streak, the French government is now jockeying to put one of its nationals in the Agriculture Commissioner's spot at the European Union. That would give France, the EU's biggest agricultural power, control over a juicy portfolio that gets more than half of the \$87 billion EU budget.

#### VENEZUELA BANKING DEBACLE

**I**n the latest installment of a long-running banking crisis, the government took control of Banco de Venezuela, the country's second-largest bank, and pumped in \$295 million to keep it running. That brings to 10 the number of banks taken over since January. The government also extended loans of \$253 million to four other shaky banks. So far, the bailouts have cost the government more than \$6 billion. President Rafael Caldera is expected to hike gasoline prices to help narrow the huge resulting budget deficit. A similar move led to bloody riots in 1989.



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## A SPLITTING HEADACHE FROM A HEALTH-CARE MERGER

Lawsuits, slumping profits, firings, and a stock dive mar the Abbey-TPC deal



ABBEY CHAIRMAN AITKEN CLAIMS THAT HE WAS MISLED ABOUT TPC'S PROFIT PICTURE

There were smiles all around when Abbey Home Healthcare acquired Total Pharmaceutical Care (TPC) last November for \$197 million. Abbey Chairman Timothy M. Aitken saw TPC as a cornerstone of his expanding empire. TPC's boss, Victor M. Chaltiel, liked the idea of becoming Abbey's CEO—while clearing \$6 million by selling his shares to Abbey. Even newly elected Los Angeles Mayor Richard J. Riordan had reason to cheer: Riordan's venture-capital firm helped launch TPC in the early 1980s. And the mayor's own investment in TPC, worth about \$3 million when merger talks began in July, was now valued at more than \$5 million.

Nobody is celebrating anymore. Since the takeover, Abbey, based in Costa Mesa, Calif., has been rocked by an unexpected write-down and anemic earnings that it blames squarely on problems at TPC. In the second quarter, Abbey's profits fell 8%, to \$3.7 million, even though its revenues climbed 55%, to \$118.5 million.

The fallout from the deal continues: On Aug. 5, Abbey sold its 51% interest in a unit that sells drugs to nursing homes for \$21 million, money Aitken

concedes Abbey needed to mitigate the financial damage from TPC. Abbey's stock, once a darling on Wall Street, has sunk 45% from its high on Feb. 11, to 17. And Abbey's changing fortunes have sparked an upheaval in management ranks. More than a dozen Abbey executives, including Chief Operating Officer Michael Miller, have left the company. Miller won't comment.

**REAL VICTIM?** And it doesn't appear that the bitter aftertaste of the Abbey-TPC deal will fade any time soon. Chaltiel, who was fired in February, filed suit against Abbey in Los Angeles Superior Court in April, alleging that the company never had any intention of keeping him on. Abbey denies the claim. Instead, Aitken says he's the true victim. In a complaint filed with the American Arbitration Assn. on July 5, Abbey claims that TPC executives, including Chaltiel, misled Abbey managers about the health of their company through improper account-

ing practices and bogus revenue projections. Chaltiel and other former TPC executives deny any wrongdoing. Abbey and Chaltiel have agreed to submit their complaints to arbitration.

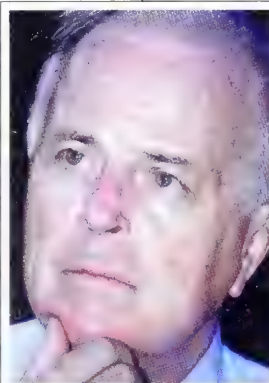
Even Riordan finds himself caught in a potential public-relations mess. Although he isn't named in Abbey's complaint, the company alleges that another attorney at the mayor's former law firm and TPC's outside counsel, Riordan & McKinzie, acted improperly on Chaltiel's behalf. Specifically, Abbey claims in its complaint that Christopher Lewis, a Riordan & McKinzie partner and TPC director, approved \$67,000 in questionable travel expenses for Chaltiel three days before the merger. Included in the expenses: a plane ticket for a vacation in France. Chaltiel denies the allegation, saying he reimbursed the company for his personal expenses.

Lewis, who manages the mayor's investments in a blind trust, couldn't be reached for comment. Meanwhile, Kam L. Rotschafer, Riordan's attorney, points out that the mayor was merely an investor in TPC and played no managerial role. "He's not losing sleep over this one," she says.

However the current corporate drama unfolds, Abbey's purchase of TPC is a cautionary tale of how oversized expectations can quickly turn to bitter disappointments in any merger. At first glance, TPC seemed to be the perfect vehicle for Aitken's ambitions. Abbey

was growing rapidly in such areas as medical equipment and home respiratory services. It Aitken had long coveted a piece of the lucrative home-infusion business. By 1993, the \$100 million TPC was one of the fastest-growing players in the market.

Aitken and Chaltiel agree that it was a troubled marriage from the start. Their operating styles seemed worlds apart. At 49, the British-



L.A. MAYOR RIORDAN INVESTED EARLY IN TPC



## A PAINFUL DEAL FOR ABBEY

**NOV. 10, 1993** Abbey acquires Total Pharmaceutical Care for \$197 million. TPC Chairman Victor Chaltiel named Abbey CEO. Timothy Aitken remains chairman.

**FEB. 15, 1994** Abbey board, angered by slow pace of integrating the two companies, fires Chaltiel and agrees to negotiate severance package.

**MID-MARCH** Abbey discovers TPC had shifted \$600,000 from reserve account to make up for revenue shortfalls just prior to the acquisition, say Abbey executives. Chaltiel says the transfer was justified and fully disclosed.

**MAR. 31** New York State regulators inform Abbey that TPC branches lack proper licenses. Abbey closes the two branches.

**APR. 12** Chaltiel files \$6 million suit against Abbey, alleging breach of contract. Abbey contends contract has been fulfilled.

**MAY 10** Abbey announces \$10.4 million write-off, later citing problems at TPC.

**JULY 5** Abbey files arbitration complaint against Chaltiel, alleging he misled the company about TPC's health. Chaltiel denies the allegations.

DATA: BUSINESS WEEK

complaint. Chaltiel won't comment. In the end, Abbey closed TPC's two branches, citing the closings and other TPC-related problems in announcing a \$10.4 million write-off on May 10.

Some analysts say that in his rush to close the TPC deal, Aitken may not have been as diligent as he should have been in studying TPC's books. Aitken insists he was deceived. He also says Chaltiel set conditions that limited his examination of TPC. "Utter nonsense," says Chaltiel. Still, Aitken says that once the mess at TPC is sorted

ed out, the merger will benefit Abbey. As for Chaltiel, he has already raised \$100 million from the bond market to launch a new company specializing in dialysis treatment at home. Meanwhile, Abbey's shareholders are still looking for a reason to smile.

By Eric Schine in Costa Mesa, Calif.

The bad news kept coming. In late March, New York regulators notified Abbey that they had told TPC in May, 1993, that it wasn't licensed to provide nursing services to administer home infusion. Chaltiel had assured Abbey there were no problems in the New York operations before the deal, says Abbey's

### STRATEGIES

## HOMES, GARDENS—AND A TIDY TURNAROUND

Suddenly, heartland publisher Meredith has a hot franchise

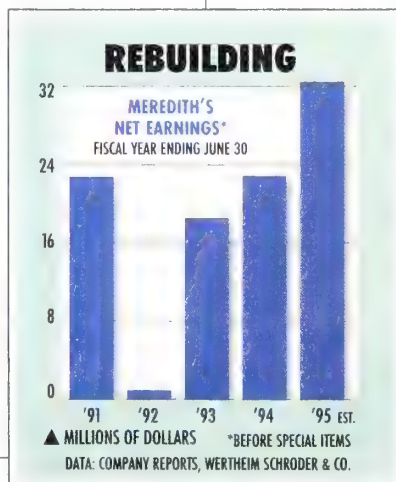
**F**or a publishing company that makes a living dispensing advice on home and hearth through such perennials as *Better Homes & Gardens* and *Ladies' Home Journal*, it was ironic that Meredith Corp.'s own house was such a mess a few years ago. Its magazines' ad pages withered in the advertising downturn. Ill-timed expansions into real estate brokerage and cable television led to wide swings in earnings. And its homegrown managers just could not pull the Des Moines publisher out of its morass.

Meredith remains the leading U.S. "home and family" media company—but few in the publishing world dismiss it as a heartland has-been nowadays. Meredith Chief Executive Jack

D. Rehm, 61, is in the midst of a fresh expansion, with plans to launch an armada of new subscription magazines—as many as four a year—to bolster Meredith's existing fleet of 24 titles. And management ranks at the once insular company, which is 63% controlled by the Meredith family, have been infused with new blood. Among the most notable

hires: William T. Kerr Jr., former head of New York Times Co.'s magazine group, hired three years ago, became president and heir apparent to Rehm on July 1. "We want to be respected by the competition," says Rehm, a 32-year veteran at Meredith, "and we feel very optimistic about the next few years."

Meredith still has a lot to prove. At





7.3%, the operating margins at its publishing business are fairly thin. About 10% is considered respectable in the industry. But there are signs of improvement: While Meredith's profits for the year ended June 30 were a slim \$22.9 million on revenues of \$799 million, that still represented a 23% jump (chart). Even better for the Meredith family and other shareholders, the stock has risen 15% since the start of the year to 46. "We're going back to what we were: a successful magazine and broadcasting

not sound particularly enticing in the fast-paced media world of the 1990s. But they're a big hit with Meredith's 20 million subscribers—mostly women. More significant, analysts believe Meredith's franchise is emerging as one of the most profitable sectors in publishing, as baby boomers grow older and their tastes turn more conservative. "Their thrust of family and home is the hot thing for the '90s," says Shari Wall, senior vice-president at J. Walter Thompson in Chicago, which represents big Meredith ad-

sists that, in editorial content, *Home Garden*, to be launched in January, is so different from *Better Homes* that subscribers will continue to get both. Meanwhile, Meredith is giving a face-lift to *Better Homes*. The flagship publication now has puzzles and games for parents and their children. Advertisers are welcoming the changes. *Better Homes* is 14.6% of all ad pages in women's service magazines in the first half of 1994, down from 13.9% in 1993.

Still, mindful that the ad market may never again be as lucrative as it was in the 1980s, Rehm is also rushing to build his other media businesses. The company is willing to spend \$400 million for TV and magazine acquisitions. It's shopping around for two TV stations to bring its holdings up to seven. Meanwhile, Meredith's ailing book unit, whose main seller is the plaid-jacketed *Better Homes & Gardens New Cook Book*, Ward hopes to publish a slew of new books on everything from food to woodworking. **NIGHTLIFE?** Meredith is also trying to cash in on the marquee value of its brand names. A *Better Homes* real estate franchise operation hasn't grown in years. But Rehm isn't giving up. This year Meredith allowed Wal-Mart Stores Inc. to set up *Better Homes & Gardens* Centers in 2,000 outlets to sell garden tools and supplies. Analysts reckon Meredith has so far received as much as \$4 million in licensing and revenue-sharing fees from Wal-Mart. Other possibilities Meredith is considering: a line of Western clothing and even nightclubs, tied to Meredith's *Country America* magazine.

Despite his recent success, Rehm's work is far from done. He has set an ambitious target of a 15% return on equity by 1997—a big stretch from the 8.9% in 1994. And other publishers see opportunity in the same markets Meredith is aiming for. Hearst Magazines, home to *Redbook* and *Good Housekeeping*, is planning new family publications. In July, Germany's Gruner & Jahr USA Publishing spent \$275 million to buy Meredith rivals *McCall's*, *Family Circle*, and *American HomeStyle* from New York Times. Says Gruner USA CEO Jon Heins: "We think we can make this market even more competitive," he boasts.

What's more, Meredith has been slow to explore the potential of multimedia. Rehm refuses to spend heavily to gain access to the Information Highway. "I don't know enough about consumer behavior to warrant it," he says. That approach is conservative—not hidebound, argues Rehm. A subtle distinction, perhaps, but one that has made all the difference at Meredith.

By Richard A. Melcher in Des Moines

## MEREDITH BETS ON EXPANSION

### MAGAZINES

Plans to launch three to four new magazines a year. First major entry, tentatively titled *HomeGarden*, is to be introduced in 1995.

### BROADCASTING

Searching the top 40 markets for two TV stations to bring holdings up to seven. Plans to sell off small cable venture.

### BOOKS

Speeding up and expanding new book launches. In partnership with multimedia company, Multicomm, wants to introduce CD-ROM versions of several books.

### LICENSING

Aims to parlay the franchise value of its big-name magazines into additional revenue. Opened *Better Homes & Gardens* shops in 2,000 Wal-Mart Stores earlier this year to sell garden supplies.

DATA BUSINESS WEEK



REHM: FRESH TALENT AND COST CUTS DID THE TRICK

company," says E.T. Meredith III, a member of the board and grandson of founder Edwin T. Meredith.

Turning to outsiders has certainly helped get Meredith back on track. In addition to Kerr, Rehm in 1992 hired Christopher M. Little, who formerly served as president of both *Newsweek* and Cowles Magazines Inc. He now heads Meredith's magazine group. In 1991, Rehm recruited Joseph J. Ward, the former publisher of Time-Life Books, to head the book division. The new managers are changing Meredith's paternalistic culture: They have helped cut the payroll by 7% since 1992, to 2,000.

With costs more manageable, Rehm and his new team are trying to rejuvenate Meredith's magazine empire. Dish- out recipes and gardening tips may

vertisers Kraft General Foods Inc. and Quaker Oats Co.

To exploit those changing demographics, Meredith's editors are working on a new generation of gardening, food, and craft magazines. It's tricky. By using its 63-million-name database of current and former subscribers and customers, Meredith hopes to capture readership for its new magazines without spending heavily on promotion. But it has to guard against cannibalizing readers from existing publications.

Meredith came up with the idea for a new magazine, tentatively titled *HomeGarden*, and then sampled its database to see if it would sell. It then tapped its subscription lists, including *Better Homes*, to come up with 400,000 potential readers to start with. Meredith in-





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**MORGAN STANLEY**





## HOW HIGH CAN THE FED'S 'INFLATION DOVE' SOAR?

It will be tough for Alan Blinder to sway conservative colleagues

**W**hen White House economist Alan S. Blinder traveled to New York last April to speak before a group of Wall Street traders, it was already widely believed that he would soon be nominated as vice-chairman of the Federal Reserve Board. But instead of professing the anti-inflation views the Street expects of central bankers, Blinder, who once described himself as an "inflation dove," expressed

Reserve Bank presidents who set interest rates.

Blinder, one of the leading liberal economists of his generation, joins a board of avid inflation fighters who have engineered four interest-rate hikes since February and are poised to boost rates again. In the near-term, the new Fed vice-chairman will have a tough time persuading his colleagues to let up their relentless fight against inflation. Shortly

mist Janet L. Yellen, who is awaiting Senate confirmation.

Some Administration officials are privately promoting Blinder as a possible successor to Greenspan, whose term as Fed chairman expires in March, 1995. And that prospect already creates political cross-pressures for him. "He needs to be an aggressive advocate of growth to please Clinton and a strong inflation fighter to please Wall Street," notes a former Administration colleague.

Blinder admits becoming chairman would be "a chance of a lifetime," but he plays down the possibility, noting that a vice-chairman has never moved to the top spot in the Fed's 81-year history. "I don't spend a lot of time thinking about it," he says. In the meantime, he vows he won't forsake his beliefs simply to appease traders whom he claims have unfairly miscast him as indifferent to inflation. Blinder's mentor, Nobel Prize

### THE VICE-CHAIRMAN SPEAKS:

#### ON INFLATION

"I see very few inflationary pressures—not zero, but some. You're at functional price stability when people stop talking about inflation. By that definition, we're close, but not quite there."

#### ON THE FED'S SECRETIVE HISTORY

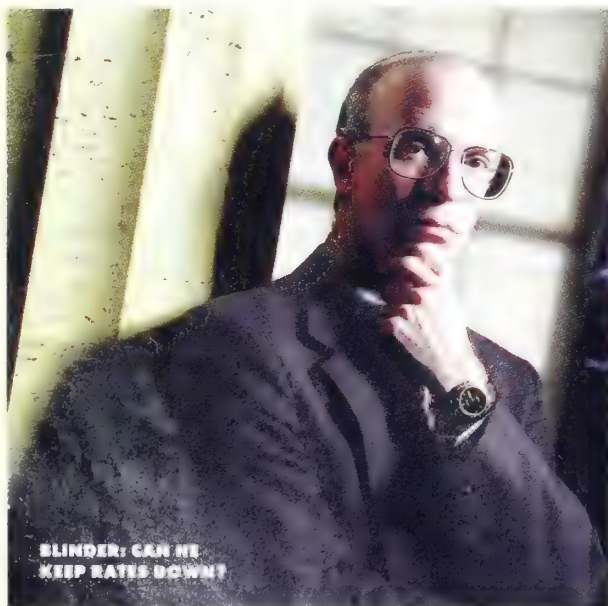
"The Fed could do a better job of explaining itself...informing the people. It's their economy, not ours.... And if we can't explain our decisions, we haven't made good ones."

#### ON THE ECONOMY

"If I could tell you now that for the next 5 or 10 years, the economy would grow 2.5% and inflation would be 3%, every sensible person in America would buy on. Now that's not a prediction or a guarantee...but it does look like we have a fighting chance to glide into it."

#### ON HIS REPUTATION AS AN 'INFLATION DOVE'

"I don't intend to disavow any of the things that I said previously.... I believe people should be judged by what they do. I will have a record, and I'm perfectly willing to be judged by that record."



BLINDER: CAN HE KEEP RATES DOWN?

skepticism that prices were about to surge. "He did everything to confirm everyone's worst suspicions," grumbles William Feezer, co-manager of government trading for Sanwa Securities USA.

That Blinder made few converts on Wall Street didn't deter President Bill Clinton from choosing the 48-year-old Brooklyn native to become the first Democratic appointee to join the Fed in 14 years. Indeed, the President picked him precisely because he isn't an inflation hawk. Now Blinder, a longtime Princeton University professor and a former *BUSINESS WEEK* columnist, is trying to win over a different group of skeptics: the other Fed governors and

after his nomination, one Fed governor told Fed Chairman Alan Greenspan that, as a young scholar, Blinder's writings made him appear soft on inflation, "but it's not that he's a communist." Greenspan jokingly replied: "I would have preferred he were a communist."

**THE HIGHEST RUNG.** But with inflation apparently under control, Blinder could become an influential voice within the Federal Reserve as it makes difficult choices between allowing growth and fighting inflation. And Blinder's views surely will gain support when he is joined at the Fed by another Clinton nominee and like-minded colleague, University of California at Berkeley econo-

winning economist Robert M. Solow puts it this way: "He is not willing to sacrifice the whole economy for a couple tenths of a point off the inflation rate."

Still, some Fed watchers believe a sign of Blinder's aspirations will be whether he dissents from Fed votes to tighten credit. To project leadership on the Street, they say, Blinder may feel compelled to argue his case but stick with the majority even when he disagrees. His first vote on the policy-making Federal Open Market Committee (FOMC) July 5-6 was easy—the board decided to sit tight for the time being. But the Aug. 16 meeting of the FOMC will be Blinder's first test, as pressure



Wall Street grows for the Fed to ten credit again despite no clear signs of worsening inflation. Certainly, Blinder is no stranger to King the prevailing wisdom. As an iconoclast, he kept the Keynesian flame alive during the 1970s and 1980s, even as he fell into disrepute against such orthodoxy as monetarism and the supply-side movement. "It was a lonely battle," Blinder, who still proudly proclaims himself a believer in Keynesian economics, says. "With its emphasis on managing the demand side of the economy. In his extensive writings, which include a popular economics textbook and 10 years of monthly columns for *BUSINESS WEEK*, Blinder has argued that policymakers exaggerate the perils of inflation. In his 1987 book, *Hard Heads, Soft Hearts*, Blinder likens inflation to a badly misunderstood teenager, and he accuses economists who have prescribed the economic equivalent of lobotomy [with unemployment] as a cure for the stagflationary cold."

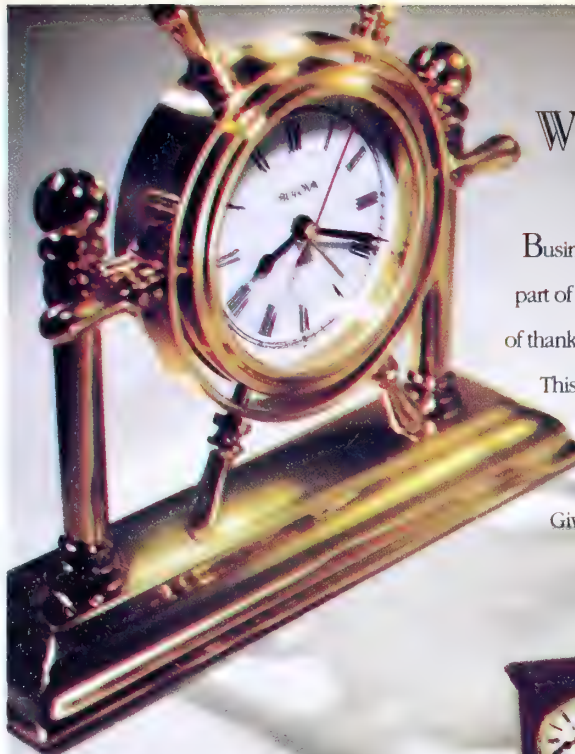
**ON FISCAL POLICY.** So far, Blinder has fit easily into his new job, which has a cloistered feel and leisurely pace of college life. While his father was a businessman who dabbled in hotels, vending machines, restaurants, and textiles, Blinder sought refuge in academia with a 2-year teaching stint at Princeton, his alma mater. "One of the things I learned from my father was not to be a self-employed entrepreneur," he jokes. "It's a tough way to make a living."

At Princeton, Blinder made his name through research that questioned some widely held conventions of the "new classical" school, which viewed government attempts to smooth out the business cycle as doomed to failure. Blinder's work argued, by contrast, that changes in monetary and fiscal policy could have powerful impacts on economic growth.

Blinder made the leap to Washington last year when he became a member of President Clinton's Council of Economic Advisers. Friends say he was deeply disappointed when he was passed over for CEA chairman in favor of a grad school classmate, UC-Berkeley economist Laura D'Andrea Neely, but he swallowed his pride and landed on as the CEA's macroeconomist. Unlike the White House, he won respect for his pragmatism and an ability to find consensus.

The question now is can he do the tough thing at the Fed. It will be a tough balancing act to help set a monetary course while staying true to his Keynesian roots. But if he can help keep the economy headed toward moderate, low-inflationary growth, Blinder may earn the grudging respect of Wall Street—and get himself a promotion as well.

By Dean Foust in Washington



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**MATTER OF ACCOUNTABILITY: THE LYNCH REPORT IS MUM ON YEAREND AUDITS BY KIDDER IN '91 AND '92**

## WHAT LYNCH LEFT OUT

Kidder's report on the Jett affair is riddled with troubling omissions

**W**hen Gary G. Lynch produced his 85-page report on the Kidder, Peabody & Co. trading scandal, it seemed to slam the final nails into the coffin of that widely tarred villain—former government bond chief Joseph Jett. In excruciating detail, Lynch piled fact upon fact in buttressing his view that Jett, by dint of “lax” supervision, was responsible for \$350 million in phony trading profits from 1991 to 1994. Jett has protested his innocence, but after the Lynch report, his protests seemed to ring hollow. It was, after all, Jett’s word against a dispassionate investigation by a former chief of enforcement at the Securities & Exchange Commission. Whom would you believe?

Jett? Hardly. But a critical reading of the Lynch report casts grave doubt on its credibility, too.

Copies of the report have been circu-

lating for a week now on Wall Street, and unanswered questions have become jarringly apparent. Those omissions call into question the fairness of the report, and so does the soft-pedaling of a crucial fact favorable to Jett—a managing director’s assertion that he was told fixed-income chief Edward A. Cerullo was “aware of Jett’s trading activities.” That contradicts Lynch’s conclusion that Cerullo was unaware of Jett’s trading strategies—and even calls into question

Should you believe the widely vilified Jett or the SEC’s former enforcement chief? The truth may lie in between

Lynch’s assertion that Jett acted alone.

The upshot is that the truth of the Jett affair may very well lie between Jett’s version and Lynch’s. Jett claims that his trading was known to his bosses, Cerullo and his predecessor, Mel Mullin. Cerullo and Mullin, both of whom left Kidder after the scandal erupted, have vigorously denied that they were aware of Jett’s trading. To the extent that Jett can show culpability up the chain of command, the consequences would be ever more serious for Kidder.

Here are the questions that are being raised about the Lynch report:

■ *Where were the auditors?* Kidder has maintained, and the

Lynch report confirms, that Jett realized phantom profits by a series of penny transactions that involved stripping and reconstituting Treasury bonds. That involves turning bonds into separate interest and principal components and vice versa. The report says Jett obtained profits out of those transactions by manipulating the firm’s trading and accounting systems. The volume of penny trading was mind-boggling—\$1.7 billion in 1993 alone—and resulted in profits of Jett’s zero-coupon trading desk skyrocketing during 1992 and 1993. But the report provides meager information on the extent to which auditors at Kidder or its parent, General Electric Co., checked to see if the trades were real.

The report says that internal auditors at Kidder conducted two reviews of Jett’s trading desk in 1993 but never caught on because they were inexperienced and were given “misrepresentations” by Jett. But what about 1991 and 1992? What about other audits by Kidder and GE auditors? Were there any? The report doesn’t say—even though \$350 million in phony profits were pilged up in Kidder and GE ledgers. In 1993, Jett’s phony profits totaled 27% of the profits of the entire fixed-income unit, all of which were accumulating on assets sitting in the Kidder coffers. Indeed, they also boosted the balance sheet of GE—which is conspicuous by its absence



n the report. "I can't believe that der and GE auditors didn't look at quality of those assets," asserts John ank, a professor of accounting at the os Tuck School of Business at Dart- uth University. In fact, GE never did— east while Jett was doing his trading. E spokesman says GE audits Kidder ry 18 months, most recently at rend 1992. Then, the audit concen- ed on "hedging effectiveness," main- nortgage derivatives and government ions, and "the government Treasuries k was not involved."

*Where was the cash?* One gaping hole he report is the omission a single word—cash. Ac- cording to Kidder, the Jett des—to the extent any re completed—were not lly trades at all but con- sions of securities, akin going to the bank and ng a \$10 bill into two es. Not a penny entered ider's coffers. Once again, ere were the folks in the en eyeshades? Where s Kidder Chief Financial icer Richard W. O'Don- l? "The disparity between volume of profits and ence of cash should have ped off the internal audi- s," says a top executive another brokerage. A lder spokesman said that onnell and other employ- were not commenting on e report.

The lack of cash also ould have been a red flag Cerullo and Mullin. Ac- cording to the report, they ied on internal statements at didn't distinguish be- een profits from sales of urities, or "realized" prof- and "unrealized" profits m increases in the value e securities. "An analysis of real- d vs. unrealized gains would have ough the Jett scheme to light earlier," ys the Lynch report. Indeed, the re- rt goes beyond that—by noting that tt's supervisors simply didn't know w he made money.

Executives of other firms, who would nment only on condition of anonymity, d the professions of ignorance all but possible to believe. At the very least, anagers know if their subordinates' ofits are realized or unrealized. Maybe t on a minute-by-minute basis, but nth after month, year after year, of norance? Impossible. After all, real- ed profits are cold cash, while unreal- ed profits can vanish overnight. Se- rities lawyers say that managers also

have a legal duty to keep an eye on their traders. "If, on the face of it, your systems are inadequate, then you are supposed to fall back on personal con- tacts with the trader," says John C. Cof- fee, a professor of securities law at Co- lumbia University.

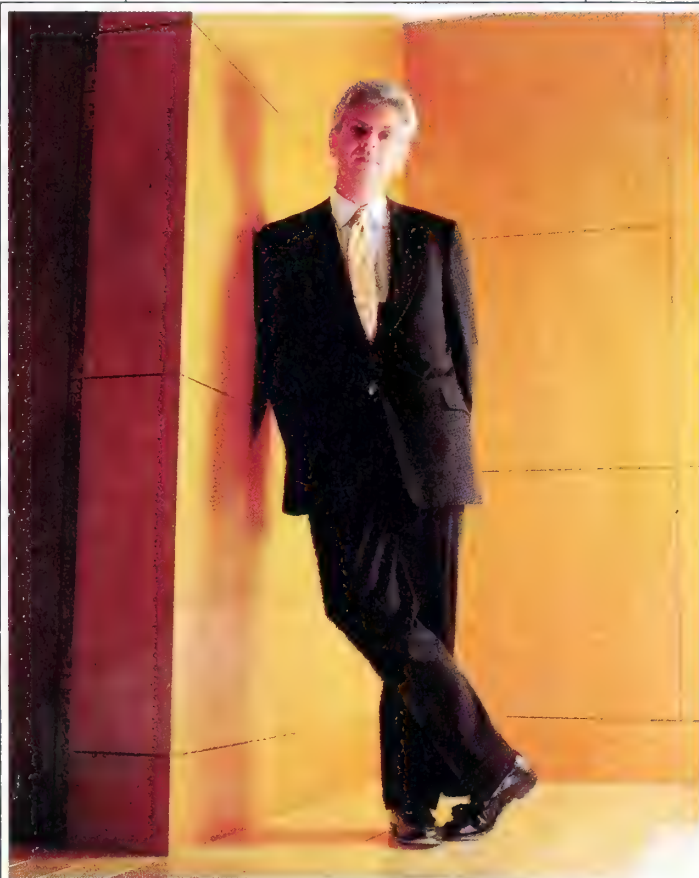
■ *Why did "outside counsel" conduct a "review" of the government trading desk in October, 1992?* According to the Lynch report, the review was "undertaken at Cerullo's direction." But the Lynch report is silent on the reasons for the re- view or any of its findings, other than the recommendation, which was ignored,

goes on, "that he suggested that Finkel- stein approach Cerullo if he knew of any impropriety." Did Bernstein deny that? The report doesn't say.

■ *Where was Carpenter?* If Cerullo knew, what about his boss, former Kidder Chairman and CEO Michael A. Carpen- ter? Did Carpenter ever inquire about how his hotshot trader was making mon- ey—at least before Jett was awarded the "Chairman's Award" for his contributions to profitability in 1993? The report is completely silent on possible managerial oversights by Carpenter, a friend of GE Chairman John F. Welch Jr. This omis-

sion buttresses the view that the Lynch report was aimed at defending Kidder and GE in the ongoing government probes. Kidder maintains that the report was a well-fi- nanced, no-holds-barred probe of the Jett affair. Nev- ertheless, Kidder faces inves- tigations by the SEC and the U. S. Attorney's office. De- pending on their seriousness, failure-to-supervise charges could result in big fines being imposed on Kidder as well as government-ordered man- agerial changes, Coffee notes.

■ *What does the report indi- cate about the rest of Kid- der?* Perhaps the most crui- al omission from the report is a subject that it was never supposed to cover: What about the rest of Kidder? If the managerial and auditing shortcomings in the govern- ment bond department were duplicated elsewhere at the firm, the implications are staggering—particularly for its huge mortgage-securities area, which was severely hurt by the collapse of Askin Capital Management. As por- trayed in the report, "the



**GARY LYNCH HAS BEEN WINNING THE PUBLIC-RELATIONS WAR—SO FAR**

that supervisory personnel review order tickets on a daily basis. The report nei- ther discusses the magnitude of the re- view nor identifies the "outside counsel."

■ *Did Cerullo's assistant say that Cerullo really knew about Jett's activities?* If so, that undercuts one of the central tenets of the report. Yet buried on page 67 is the revelation that Brian Finkelstein, the managing director in charge of the repo desk, voiced concerns about Jett's "remarkable profitability" toward the end of 1993. Finkelstein discussed his concerns with Cerullo's assistant, David Bernstein. "According to Finkelstein," the report says, "Bernstein also stated that Cerullo was aware of Jett's trading activities." So what does Bernstein have to say? "Bernstein recalls," the report

risk management at Kidder is equivalent to the lookout on the Titanic," sneers one veteran fixed-income trading executive. "If Kidder can get hoodwinked on some- thing as simple as government bonds—that's just interest-rate risk and mathe- matics—you can imagine what's going on in its mortgage desk."

For the moment, though, Kidder is preoccupied with controlling the dam- age caused by the Jett mess. So far, Lynch has been winning the public-rela- tions war. Can his analysis be believed? Perhaps. But until those gaping holes are filled, the best approach to the Lynch report is to see it for what it is—a brief for the defense of a brokerage firm that may be in serious trouble.

*By Gary Weiss in New York*



## WALL STREET'S BITTER LESSONS FOR GE

**N**o surprises. That's what General Electric Co. Chief Executive Officer John F. Welch Jr. expects from his troops. But in April, Welch received a surprise on a par with Pearl Harbor. That's when lieutenants at GE's Kidder, Peabody & Co. unit brought the bad news that an errant trader, Joseph Jett, had rolled up, over 30 months, such a huge volume of fictitious trading profits in government securities that GE had to report a \$350 million pretax loss.

On Aug. 4, an 85-page report by former Securities & Exchange Commission enforcement chief Gary G. Lynch that was commissioned by GE concluded that Kidder suffered from "lax oversight" and "poor judgments." Virtually all of the senior executives, including CEO Michael A. Carpenter, have been forced out and replaced by GE operatives.

That's a far contrast from the image GE likes to project: a tightly run ship that fosters high performance while maintaining rigorous controls. Release of the report raises questions about the much-vaunted GE management system, the paradigm of consultants and business-school pros. GE has suffered black eyes in the past, such as a bribery scandal involving the jet-engine division. But the Kidder fiasco clearly shows that GE is just as capable as any other big American company of making colossal errors in judgment.

**DIFFERENT CLOTH.** Just as Kidder's top executives didn't understand Jett, GE couldn't get a handle on Kidder. Like Exxon Corp. before it with office equipment and Eastman Kodak Co. with pharmaceuticals, GE erred in believing that management success in one business would automatically transfer to another. It thought that controlling the people who make up Wall Street's free-wheeling trading culture was as simple as controlling manufacturing processes, in which GE has long specialized. "There was never anybody in the company who came out of that world and understood it," says one former top GEer.

Back in 1986, when GE acquired Kidder, the move seemed to fit a master scheme to achieve dominance in financial services. A brochure that GE's crack marketing folks put together at the time talked of building synergy with GE Capital Services Inc., GE's hugely profitable financial-services arm, that would yield a "force in the world's financial marketplaces second to none."

Wishful thinking. GE repeatedly bun-

and they've never really folded it into GE Capital."

There is a vast difference between the worlds of finance in which GE Capital and Kidder operate. GE Capital focused on Main Street: It leads in such businesses as auto leasing, mortgage insurance, and equipment financing. These are also businesses where the assets tend to be real, not paper.

**HUMBLING?** Kidder, by contrast, is part of a world where a few superstars acquire enormous power, where a trader like Jett, with no formal training, could make \$9 million in a single year. That's a far cry from the thousands of highly skilled credit analysts and managers at GE Capital who lease railcars and process mortgage-insurance applications. With few exceptions, such as Merrill Lynch & Co., firms on Wall Street have long lacked the kind of tight management structure that is common in Corporate America.

Kidder, among the most poorly run firms when GE bought it, has also been a lackluster producer of profits, GE's chief barometer of success. But Welch was never able to fix the problem. He recently said that Kidder has earned about \$250 million since 1986. That's on an investment of \$1.4 billion. Not the kind of performance one expects from GE, where such mundane businesses as gas turbines make that much money in a single year. Welch, for some reason, tolerated those results for a while but in recent years he has been trying to unload the firm.

In the long run, some good could come of GE's Kidder mess. Maybe the episode will humble a company that had begun to believe it was infallible. It can serve as a reminder that no matter how well you are doing—ar- certainly GE has performed as well as any large company of late—you can't eliminate surprises. It's how you deal with them, and what you learn from them, that are the true measures of good manager.

*Smart covers GE from New Haven*



**JACK WELCH NEVER MADE KIDDER AN INTEGRAL PART OF GE CAPITAL**

gled the job. To begin with, Welch, who declined comment on the Lynch report, picked Carpenter to lead the effort. Carpenter had no securities-industry experience, having come to GE from a career in management consulting. He never got along with GE Capital head Gary C. Wendt, an engineer turned finance whiz. As a Welch favorite, Carpenter reported not to Wendt, who ran the company Kidder was nominally a part of, but to Welch. Wendt kept his distance from Kidder. What's more, Kidder's top personnel seemed cut from different cloth than the nuts-and-bolts managers who run GE Capital. Says Harvard University business school Professor Francis J. Aguilar: Kidder "has never really fit,

**GE didn't understand the Street's freewheeling trading culture, where a few superstars rule the roost**





The extent of market-timing is anybody's guess. Douglas Fabian, editor of *Fabian's Investment Resource*, one of the largest of some 130 timing newsletters, says it has 36,000 subscribers with an average portfolio of \$138,000. That alone is nearly \$5 billion. Fabian and other gurus also manage money for individual and small corporate pension plans. Most timing is done in tax-deferred accounts.

**INVESTOR NON GRATA.** Usually, timers don't focus on individual stocks. No-load funds, with their easy switching privileges, are their favorites. Because they may dart in and out of a fund quickly, timers can force some fund managers to sell stock to meet redemptions. Some fund companies have booted frequent switchers out.

Most timers use "technical" systems to call the shots. They analyze stock-price movements and volume changes to decide whether to buy or sell. Some add monetary indicators such as interest rates and take fundamentals such as p-e ratios into account. Depending how the triggers are set and how volatile the market is, timers may signal as few as two or perhaps a dozen switches a year.

But while most of the newsletters are bearish right now, not all called the downturn as well as Nurock. Many stepped to the sidelines during 1993, and Joseph Granville urged his followers out of the market nearly two years before the stock market peak. *Fabian's Investment Resource* said sell on Mar. 31. On the next trading day, Apr. 4, the Dow hit its low so far for the year.

"Sure, I worry that we sold at this year's bottom," says Fabian, whose letter

# TIME FOR MARKET TIMERS TO GET SOME RESPECT?

They're skulking all the way to the bank this year

Market timers, the soothsayers and traders who jump in and out of the stock market, are among the most unloved sorts on Wall Street. Their raison d'être—riding the trends, dodging the down moves—is in the face of the conventional wisdom that stocks should be held for the long term. Perhaps only the short-seller, who make their money on falling stock prices, are more despised by the Investment Establishment.

But so far, 1994 is one of those years timers to strut. In the first half, they produced an average return of 0.1%, according to the *Hulbert Financial Digest* newsletter that tracks their advice. That may not sound like much, but during the same period the Wilshire 5000 Value-weighted Total Return Index, a broad measure of stock-market performance, is down 4.5% (table) and the Standard & Poor's 500-stock index fell 3.6%. And many of the best-known market-timing newsletters did a lot better than that. The *Elves Short-Term* model, one several in *Bob Nurock's Advisory*, returned a nifty 3.2% return. Nurock told subscribers via his telephone hotline to

switch from stocks to cash on Feb. 15—two weeks after the Dow Jones industrial average reached an all-time high. Nurock is still bearish. With the market continuing to struggle, investors are starting to wonder if the timers' in-and-out strategy is a better way to go.

## HOW THE BIG-NAME MARKET TIMERS FARED

| Newsletter/Timing system                                          | Cumulative returns through June 30, 1994 |             |            |
|-------------------------------------------------------------------|------------------------------------------|-------------|------------|
|                                                                   | Six months                               | Three years | Five years |
| <b>THE BIG PICTURE</b> Master Key, no shorting                    | 1.8%                                     | 17.7%       | 64.7%      |
| <b>BOB NUROCK'S ADVISORY</b> <i>Elves</i> Short-Term, no shorting | 3.2                                      | 47.0        | 62.0       |
| <b>ELLIOTT WAVE THEORIST</b> 100% cash on sells                   | 1.8                                      | 9.6         | 20.2       |
| <b>FABIAN'S INVESTMENT RESOURCE</b> Equity/Cash Timing Model      | -2.7                                     | 32.4        | 57.9       |
| <b>GRANVILLE MARKET LETTER</b> 100% cash on sell signals          | 1.8                                      | 22.7        | 70.1       |
| <b>INVESTTECH MUTUAL FUND ADVISER</b> Mutual Fund Timing Model    | 0.9                                      | 27.3        | 56.8       |
| <b>PROFESSIONAL TIMING SERVICE</b> Supply-Demand, no shorting     | -1.0                                     | 32.6        | 102.1      |
| <b>SYSTEMS &amp; FORECASTS</b> Time Trend, no shorting            | 0.1                                      | 26.6        | 68.7       |
| <b>WILSHIRE 5000 VALUE-WEIGHTED TOTAL RETURN INDEX</b>            | -4.5                                     | 33.9        | 61.6       |
| <b>NEWSLETTER TIMERS' AVERAGE*</b>                                | 0.1                                      | 17.5        | 34.5       |

\*108 timing systems for six months, 95 for three years, 75 for five years

DATA: HULBERT FINANCIAL DIGEST



was known as *Telephone Switch Newsletter* from the time his father launched it in 1977 until last year. "But we also came out 7% below the all-time high on our mutual-fund composite—and that's not bad." While *Fabian's* logged the lowest 1994 returns of eight well-known timing letters, its long-term results are competitive with its rivals.

But are market timers competitive with buy-and-hold investors? Over the last three and five years, the timers have, for the most part, come up short. Those systems that sold stocks short instead of merely moving to cash did the worst. Of 75 newsletter timing systems with five-year track records, only 15 beat the Wilshire index. For the 10-year period, just 2 of 21 beat the index.

One reason that timing often falls short is that the stock market usually makes its big moves in short, sharp bursts. The penalty for missing those moves can be high, says Martha E. Ortiz, a partner in the Philadelphia investment firm of Aronson & Fogler. Ortiz notes that from April, 1970, to April, 1994, the S&P 500 had an 8.1% average annual price gain. But if the timer missed the five days with the largest gains, the return drops to 6.9%. True, a timer that dodged the worst five days would have beat buy-and-hold returns. But, says Ortiz, since the market goes up two-thirds of the time, there's more to be lost from missing the up moves than gained from avoiding the down.

**FALL GUYS.** Timers admit their services haven't looked so hot in recent years. The stock market was generally bullish, and bear markets were sharp but short. Investors who bought at the market top in 1990 recouped by early 1991. Even after the 1987 crash, the averages rebounded within two years. Timers point to the painful bear markets of the 1960s and 1970s to make the case for timing.

Timers argue that simple comparison to the stock-market averages is no way to measure their worth. "Because a timer goes to cash, he incurs less risk over a market cycle," says newsletter editor Hulbert. "If he reduces risk more than he gives up in returns, then he's adding value." Over the last five years, about one-third of the timers did just that.

Even if an investor doesn't dance to the market timers' tunes, their advice can be useful. Jim Schmidt, editor of *Timer Digest*, says about half of his readers are large money managers who don't switch in and out of the market. "But if they get some new money in and the timers they respect are bearish," he says, "they just may delay investing it." In a world so biased to the buy-and-hold philosophy, a different voice may be worth hearing.

By Jeffrey M. Laderman in New York

## WHERE BOTH BULLS AND BEARS CAN RUN WILD

**M**arket timers get little respect in the mutual fund community. Skip Viragh saw this firsthand when the fund company he worked for shut down a fund that was popular with aggressive money managers looking to call turns in the market. So Viragh started Rydex Series Trust to cater to the needs of these pariahs of the investment world.

The centerpiece of his strategy are the Nova and Ursa funds. With more than \$100 million in assets each, the funds invite timers to take stands on which direction the market is headed. Nova is a souped-up index fund, which timers buy when they're bullish. Ursa,

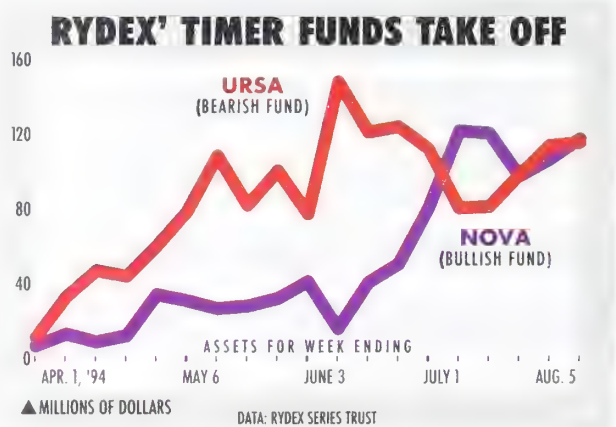
tions for stocks, Viragh keeps transaction costs down and liquidity high.

Nova's extra-heavy weighting of options makes the fund more volatile than the S&P itself. The fund should produce 50% greater gains than a regular index fund in an up market, an attractive feature to timers who usually jump into a rising market after prices turn up. But Nova shareholders had better be right: the fund will suffer greater losses in a down market. Through July 31, Nova was down 4.3% while the S&P 500 was off just 0.21%.

**SHORT TIMERS.** The Ursa Fund is equally innovative, enabling timers to go short by buying a mutual fund. Ursa

gains on market declines because it sells S&P 500 futures and buys S&P put options. Both yield profits as stocks fall. The fund's performance runs opposite to S&P. Since its inception on Jan. 1, Ursa is up 2.4%.

Although the funds have no entrance or exit fees, management fees and other expenses for Nova and Ursa come to an above-average



Latin for bear, is for those who think the market is heading south.

Rydex doesn't charge for barreling into a fund or beating a hasty retreat. And there's no limit on the size or frequency of switches. "Most mutual funds have an attitude that you buy and hold for life," gripes E. James Welsh, president of Welsh Money Management. "This is an environment where market timers are more than welcome."

**DIRTY WORD.** Rydex' unique strategy has attracted more than \$380 million into its family of six funds in little more than a year. Rydex also offers funds that track movements in small-cap stocks and precious metals. And Viragh is planning new funds based on suggestions from clients.

Derivatives, a dirty word in some mutual fund circles, keep Nova and Ursa running smoothly while timers move money around. For Nova, Viragh buys futures and call options on the Standard & Poor's 500-stock index. By substituting futures and op-

erage 1.5% of assets per year. The figure should come down as the fund grows. Rydex also requires a \$10,000 minimum investment—which keeps out small accounts that are costly to service. Viragh also tries to hold down expenses by working out of low-rent space in Bethesda, Md., and outfitting the office with beat-up furniture.

The market turbulence this past spring highlighted Rydex' value to its clients. For instance, the bullish Nova fund had just \$8.1 million on Apr. 2. The next day, a strong earnings report from IBM sparked market optimism, traders switched to Nova, and the fund swelled to over \$63 million. Another day later, sentiment changed again and all but \$11 million of Nova's assets bolted.

"The timers were looking for the market to break out," Viragh says with a laugh. "And when it didn't, they said *sayonara*." That lack of commitment—nightmare for most fund managers—Viragh's dream come true.

By Amey Barrett in Bethesda, Md.



GENE G. MARCIAL

## NILEVER MAY BE KICKING ITS CHOPS OVER HEINZ...

amous for ketchup, StarKist tuna, and other food products, H.J. Heinz enjoys a global presence. t on Wall Street, the company gets star billing. Most analysts have ne sour on the stock and have named earnings estimates for 1995 l 1996, in part because of sluggish es and earnings during fiscal 1994. t Heinz stock is buoyant, trading at -not far from its 52-week high of 39. at's cooking?

Value investors—pros who buy into npanies whose stocks are trading ow their estimated intrinsic worth—nk Heinz will be the target of a eover offer, as the food industry isolidates.

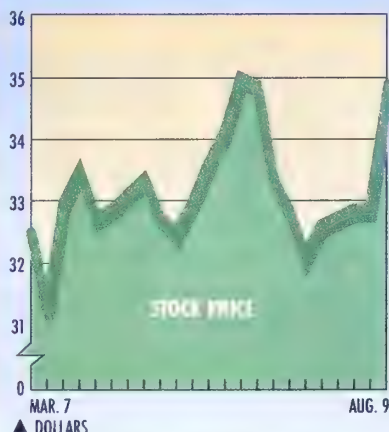
One New York hedge-fund manager ieves that Unilever, the Anglo-Dutch isumer giant with sales of about \$41 lion, has been eyeballing Heinz for a ssible bid. Unilever, which primarily uduces food, beverage, and deter-nt products, is also big in specialty emicals.

This money manager also figures at Heinz is worth about \$50 a share a takeover. Several insiders, includ- g a number of big investors, "want to sh out, and they have been behind e move to sell the company," says s pro. He notes that Heinz Chairman d CEO Anthony O'Reilly, who has en selling off assets as part of a re-structuring, may want to wait until e turnaround is well on its way be- re looking for a buyer. By then, the ice of the stock could be much high- . But suitors, especially Unilever, will ant to do a deal sooner, this New rk investment pro argues, when the ares are still reasonably inexpensive.

**AMERICAN PIE.** Says one analyst: "Buy- g Heinz makes strategic sense for ilever, which has been trying to ex- nd its food operations and extend e reach into the U.S." About 57% of einz revenues and 48% of profits em from operations in America. The st is generated primarily in Europe d Asia.

In addition to ketchup and tuna, einz's lineup of brands includes 9- ves, Jerky Treats, and Meaty Bone t food; Steak-Umm meat products; lba low-calorie beverage; canned soup

## HEINZ: LOOKING MORE APPETIZING?



DATA: BLOOMBERG FINANCIAL MARKETS

and beans, and Plasmon and Nipiol baby food.

Sales for the year ended Apr. 27, 1994, totaled \$7.04 billion, off slightly from fiscal 1993's \$7.10 billion. Smith Barney analysts Robert Morrow and Scott Glasser see fiscal '94 earnings of \$2.33 a share, off from \$2.35. Heinz and Unilever both won't comment.

## ...AS NESTLE DROOLS OVER CPC

**T**here's speculation these days about food companies not only as takeover targets but also as would-be acquirers. One such is Switzerland's Nestlé, the world's largest food processor. The question Wall Streeters are asking is: "What will cash-rich Nestlé go after?"

The maker of dairy products, coffee, chocolate, pet food, mineral water, and pharmaceuticals is said to be hot after CPC International. Whispers are that talks have been going on between Nestlé and CPC, an Englewood Cliffs (N.J.) maker of grocery products, corn syrup, and dextrose with operations in 58 countries. One source says negotiations are way past the exploratory stage. He believes an initial pact could be ironed out by late September or October.

CPC is trading at 49, up from 44 in mid-May. An investor familiar with the negotiations says the price CPC is seeking is between \$70 and \$80 a share.

Nestlé is eager, he adds, to broaden its operations not only in the U.S. but also in Europe and Latin America, where CPC sales are expected to hit

\$1 billion this year. Britain, France, and Germany are also big CPC markets. The company's foreign operations accounted for more than 64% of sales and profits last year.

Among CPC's products are Knorr soup, Hellmann's and Best Foods mayonnaise, Skippy peanut butter, Mazola corn oil and margarine, Golden Griddle pancake syrup, Karo syrup, and Thomas' and Arnold baked goods.

Analyst Kenneth Shea of Standard & Poor's figures earnings per share will jump to \$3.20 this year and \$3.60 next year, up from last year's \$2.95. Sales are expected to hit \$7.2 billion this year, after last year's \$6.7 billion. Nestlé and CPC both declined comment.

## A HOT SPLICE IN VIDEO AND AUDIO?

**N**ot everybody thinks mergers are made in heaven, even if the parties involved do. When HMG Digital Technologies announced in mid-June it was merging with privately owned Allied Film Laboratory, HMG shares skidded from 7½ to 6½. Since then, it has continued sliding, to 5½. But money manager Gary Kaminsky of Cowen & Co. is far from discouraged. He has been buying despite the dip. Why?

"Investors either misunderstand or don't care about the very positive things happening at HMG," says Kaminsky. He says the combined company, to be named Allied Digital Technologies, "will be a pure play in the emerging CD and CD-ROM software industry." Kaminsky got into the stock as early as May, 1993, when HMG merged with RCL Acquisitions.

With the latest merger, the two companies will have combined sales of nearly \$150 million. HMG, a major duplicator of audio- and videocassettes, posted sales of \$46.9 million in 1993, while Allied, which duplicates movie films and videocassettes, generated revenues of \$93.2 million.

HMG currently trades on the American Stock Exchange. After the merger, the company is expected to trade on the AMEX. HMG recently opened a new replication facility in Hauppauge, N.Y., for compact disks and CD-ROM disks. PolyGram, Capital Cities/ABC, and Sony are among HMG's big customers. Kaminsky expects the stock to double easily in a year. One analyst sees the company earning \$1 a share next year.



# IS THIS THE LAST HURRAH FOR CHRIS WHITTLE?

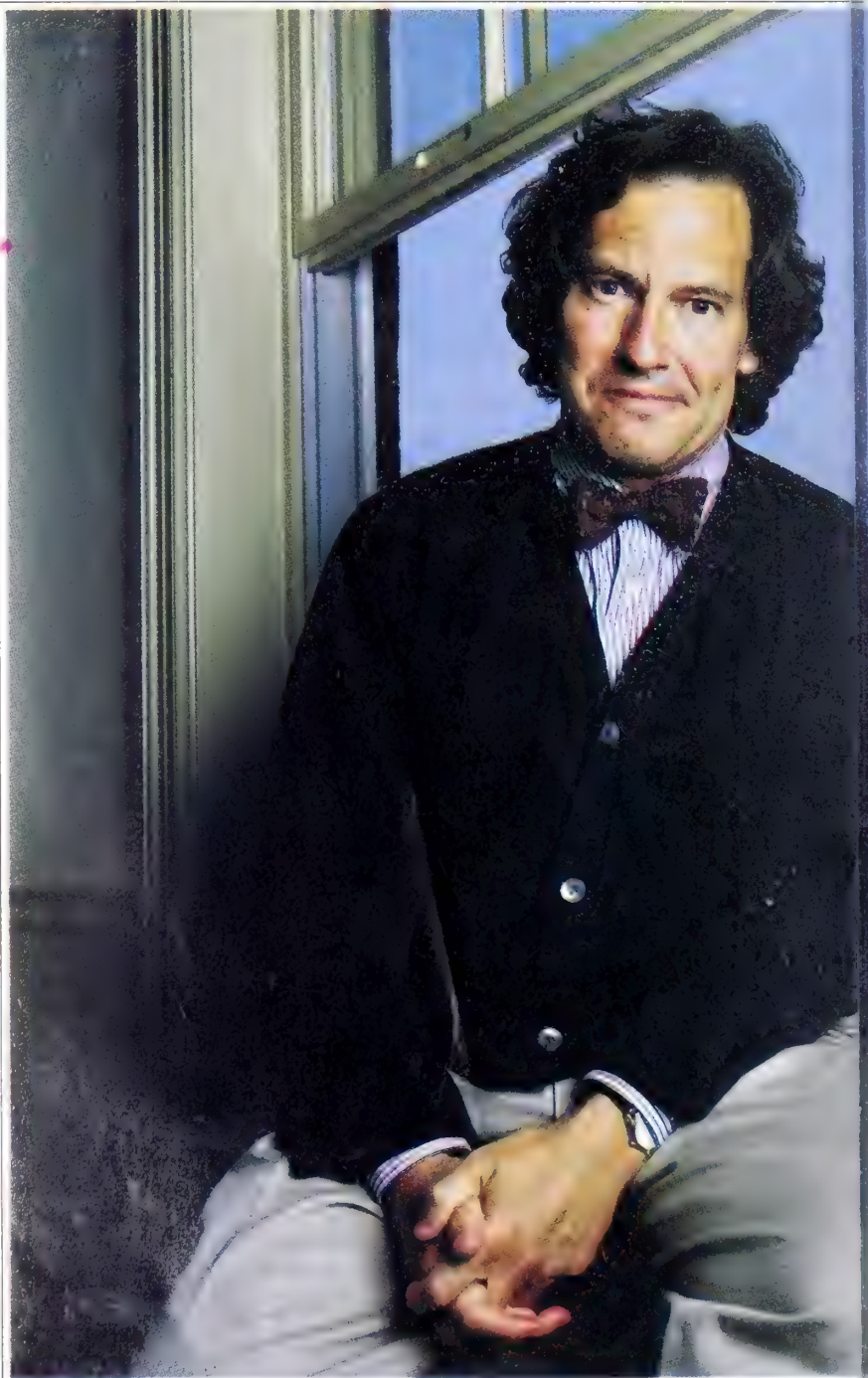
He pulled off the sale of Channel One to K-III, but the New Age media baron's empire is crumbling.

**V**isitors to Christopher Whittle's elegant shingled summer home in East Hampton, N.Y., marvel at its peaceful setting. Beyond its sweeping lawns and the calm waters of Georgica Pond, a strip of sand keeps the Atlantic Ocean at bay. As Whittle puttered around the house on July 31, though, the surf might as well have been pounding on his doorstep.

The flamboyant media entrepreneur had just shut down yet another of his ventures, Medical News Network. And he was negotiating the sale of half of his only successful business, Channel One, to Goldman, Sachs & Co. Wall Street executives say Goldman was squeezing Whittle for every last nickel. With his businesses failing and his company bleeding, he seemed to have little choice but to accept the deal. Worst of all, the investment bank wanted Whittle to play no further role at Channel One.

**ANOTHER COUP?** Then, on Sunday evening, came a call from William F. Reilly, the chairman of K-III Communications Corp. Reilly told Whittle he was interested in buying Channel One, a satellite-TV service that beams current-events programs and commercials into 12,000 schools. He said he would offer more money than Goldman, and would keep Whittle on as chairman. Whittle spent the next four days in intensive talks at Reilly's offices. By Aug. 5, he was able to bring a \$300 million offer from K-III to his board.

To his loyalists, it was another coup in Whittle's storied career: The 46-year-old executive and his partners will get sorely needed cash. Whittle will keep his place at Channel One. And with the well-financed publisher of *New York* and *Seventeen* magazines now in charge, Whittle can devote more of his attention to the Edison Project, his ambitious scheme to build a national chain of for-profit secondary schools. Says one friend, Porter Bibb, a media investment banker at Ladenburg, Thalmann & Co.: "Chris has once again demonstrated his superb salesmanship."





like many things related to Chris Whittle, there is less to this deal than meets the eye. Executives close to K-III Whittle will not run Channel One, despite his lofty title. "It's an honorary gig," says one executive. "He's going to be more like an outside consultant." Whittle plays a similar role at Edison: he hasn't been involved at all in day-to-day activities," says Edison Chief Executive Benno C. Schmidt Jr.

Rather than staging a triumph, Whittle may have written a coda to his rocky but flawed rise. Without Channel One or Medical News Network, Whittle Communications LP has shrunk

to a grab-bag of assets: a women's pro baseball team, the Silver Bullets; a distribution system for sampler products on college campuses; and medical publications such as *Physician's Weekly*. "You can draw your own conclusions," says one Whittle executive, who, like others, says he may soon leave the company.

For years, media mavens have debated whether Whittle is a visionary or a huckster—a New Age Marshall McLuhan or an old-time Elmer Gantry. With his ingenious schemes to get advertisements into books, doctor's offices, and classrooms, Whittle challenged the traditional precepts of ad-supported media. For a while, he was hugely successful. He lured big investors such as Time Warner Inc. and Dutch consumer-electronics giant Philips Electronics. And he built a stately Georgian-style headquarters in Knoxville, Tenn., which locals jokingly dubbed "Colonial Whittlesburg." Whittle Communications became a media powerhouse. And with Edison, Whittle branched out to become a voice in such high-profile issues as school reform.

Now that Whittle Communications is in disarray, employees and backers are struggling to figure out what went wrong. Some still see Whittle as a prophet who—if anything—was too far ahead of his time. "There are two kinds of pioneers," says Robert E. Hope, president of Whittle Events, invoking one of Whittle's analogies. "The ones who go out and fight the Indians to get the land. And those who stay home to build the fort. He says the ones who go out always catch the arrows."

**FANCY FOOTWORK.** Others think Whittle richly deserved the arrows. They say he has been disingenuous from the start—promising more than he delivered, most notably in Special Reports, a series of magazines and a video service for medical waiting rooms. In 1990, one former executive says, the company took out full-page ads in *The New York Times* and other newspapers claiming that Special Reports magazines reached 100 million people. Challenged on that assertion, Whittle executives later conceded that the number was inflated: The company estimated that each quarterly magazine reached 25 million readers, and multiplied it by four.

Such fancy footwork has bred an at-

mosphere of distrust toward Whittle on Madison Avenue. Some employees believe this has harmed subsequent ad-supported ventures, such as Channel One and Medical News Network. In an interview with *BUSINESS WEEK*, Whittle admits the ill-will hurt Special Reports, though he denies that it affected Channel One or MNN. "I would chalk up the problems with Special Reports to our execution," he says.

Equally important, say current and former employees, Whittle mismanaged his company. He plunged into three costly ventures—MNN, Edison, and the electronic version of Special Reports—when the company had barely \$200 million in annual revenues. And

he allowed costs to spiral out of control by hiring celebrities from government and journalism at lavish salaries. "The one thing to understand," says a former employee, "is that Chris has screwed everybody: partners, employees, schools, and advertisers."

That's a harsh judgment, and Whittle strenuously rejects it. With the exception of Time Warner and Philips, he says, his many partners over two decades have all done well

from their association with him. Whittle acknowledges that he has had to lay off employees, but says he has paid generous severance. And Whittle notes that Channel One has re-signed the great majority of both schools and advertisers that tried the service. Any suggestion that he deliberately mistreated these constituencies, Whittle says, is "not fair and... not accurate."

**NO RETURNS.** Still, Whittle has left his share of scars. Time Inc., the publishing arm of Time Warner, plunked down \$185 million for 50% of Whittle in 1988. Philips Electronics invested \$175 million in 1992. Philips and another Whittle partner, British newspaper publisher Associated Newspapers PLC, also backed the Edison Project. Together with Whittle, they poured \$40 million into the venture last summer. Even with the K-III deal, none of these investments has generated a return.

Indeed, Time Warner has steadily reduced its stake in Whittle and refused to bankroll the Edison Project. Executives familiar with the company say it has written off its entire \$185 million invest-

## THE WHITTLE FILE

AGE: 46 BORN: Etowah, Tenn.

### EDUCATION

B.S. in American Studies, University of Tennessee

### PROFESSIONAL

- Co-owner (with Phillip Moffitt), Esquire magazine (1979-83)
- Chairman and general partner, Whittle Communications and its predecessor company (1986-present)

### PERSONAL

- Married Priscilla Rattazzi in 1990
- Has a son and a daughter
- Keeps homes in Knoxville, New York City, and East Hampton, N.Y.



ment. By comparison, Time's notorious failed magazine, *TV-Cable Week*, cost the company \$47 million in 1983. Reginald K. Brack Jr., chairman of Time Inc., says the Whittle investment will result in no "material losses" for the company. But executives close to Time Warner say it contributed to the company's recent decision to replace Brack as CEO of Time Inc. Brack and other Time Warner executives flatly deny that Whittle had anything to do with his relinquishing the chief executive title.

Philips declined to discuss its expo-

Communications. Johnstone says he cut \$40 million in costs out of Whittle in his first two months on the job.

Whittle's corporate general partners may get some of their money back from the K-III deal. Executives familiar with the arrangement say Whittle will use the proceeds for three purposes: to pay down the company's roughly \$100 million in debt; to offset the estimated \$35 million cost of shuttering MNN; and to pay back the general partners. Time Warner and Philips each own 33.4%, while Associated owns 22.3%. Whittle, who is managing general partner, owns 8%.

By contrast, Whittle's limited partners—who range from company executives to longtime Whittle associates—may not get a dime from the sale. Most of them aren't surprised: They say they haven't received any financial informa-

tion since Whittle's profits began slipping about two years ago. Whittle doesn't report revenues or profits publicly. But with insiders putting the company's loss at \$50 million in fiscal 1994, Whittle isn't making money for anybody. "Everybody has been living with the prospect of [getting nothing] for some time," says one limited partner.

The sad thing about Whittle's decline, say many employees, is that he dreamed up some profitable ideas. Take Channel One. The service encountered tremendous hostility from the educational establishment when Whittle rolled it out in 1990. But 8 million students now watch its fast-paced mix of information and ads. And Channel One has re-signed 99% of its schools, according to its chief executive, Ed Winters. What's more, Channel One's distribution system can be used for other programming, says Jeffrey T. Leeds, an investment banker who helped Whittle negotiate the K-III deal.

Channel One has had a more mixed reception on Madison Avenue. Two major sponsors, Sears, Roebuck & Co. and Burger King Corp., dropped out of the service during its last renewal period

## CHANNEL ONE

Satellite-television service beamed into 12,000 schools. STATUS: Tentatively sold to K-III Communications for \$300 million.



sure. But the company has benefited from the Whittle alliance in other ways. Its Magnavox subsidiary supplies the 350,000 TV sets that carry the 12-minute Channel One broadcast. And Edison plans to use more Philips products in its high-tech schools.

Despite their hefty losses, Whittle's partners were often distracted by corporate woes of their own, and they didn't intercede until last February, after Whittle closed down Special Reports at an estimated cost of \$25 million. Philips installed one of its senior U.S. executives, Don F. Johnstone, as CEO of Whittle

## SPECIAL REPORT NETWORK



A series of magazines and a video service aimed at doctors' waiting rooms. STATUS: Closed in February. Estimated cost: \$25 million.

## EDISON PROJECT



For-profit schools venture headed by former Yale University President Benno Schmidt Jr. STATUS: Scaled back in size. Now seeking a \$50 million infusion. Plans to operate first schools by September, 1995.

two years ago. But other major advertisers, such as Procter & Gamble, PepsiCo, and Mars, renewed their participation. Winter says Channel One has signed more than \$200 million in long-term contracts averaging 3½ years. And executives close to the company say it has

35% profit margin on revenues slightly less than \$80 million.

Still, employees say Whittle could have diminished the Channel One controversy if he had been less headstrong. Some argue that he should have tried to work with the National Education

Assn. in designing the service.

He didn't. And the NEA has made Channel One public enemy No. 1 in its campaign against commercialism in schools. Last month, the group voted to authorize its local affiliates to lobby state retirement funds to divest holdings in companies that advertise on Channel

## WHITTLED AWAY

Key properties of Whittle Communications

## MEDICAL NEWS NETWORK

On-line medical information and advertising service for doctors. STATUS: Closed in August. Estimated cost: \$35 million.

SPECIAL REPORTS, BUSINESS WEEK



One. K-III may also encounter management dissension at its new properties. Executives close to the deal say White told Winter about the talks only one day before K-III made its offer. Winter won't comment on that, but says e



s to stay on as president and CEO. In other cases, Whittle was a victim of a simple bad luck. With Medical News Group, for example, he had developed a valuable on-line service to help doctors stay abreast of new drugs and treatments in an era of rapidly advancing health care. Whittle was getting good results in a test with 5,000 doctors. And pharmaceutical companies had tentatively agreed to buy ads on MNN for a total of \$147 million.

But then came health-care reform, which shifted the focus in medicine from individual doctors to huge health maintenance organizations. To account for the shift, say MNN executives, they would have to change the service's distribution. Also, facing the prospect of government reform, the drug industry had undergone a wrenching consolidation, which has thrown budgets into turmoil.

Whittle helped pay for revamping the service, but Whittle decided to sell a stake in MNN to Reuters Holdings PLC and one of the service's three drug advertisers. When both companies balked, Whittle pulled the plug.

**PARTIES.** If Whittle is sometimes the victim of circumstance, though, his big-spend ways, such as his penchant for hiring celebrity executives, didn't help. Among those who were lured to the Knoxville headquarters: Milton Jordan of Carter Administration and William S. Keyser, former editor of *Fortune* magazine,

who have both since left Whittle; and John Eisenberg, former editor of *Esquire*, who has struggled to remain useful as Whittle's operations shriveled. Sources say these executives were each paid between \$400,000 and \$500,000 a year. Former employees say Whittle's lavish practices extended to every corner of the company. To celebrate the launch of the electronic version of Special Reports, for example, says a former executive, he threw parties in New York and Los Angeles totaling \$100,000 each.

Whittle defends his high salaries as a necessary tool to attract the best people. "I don't think that periodically get out of hand," he asks. "Yes. Was it central to the problems of Special Reports and MNN? Absolutely not." Whittle also says his sprawling \$55 million headquarters was appropriate for the company when its revenues were mostly print, and were

based in Knoxville. Nowadays, Channel One is in Los Angeles, while the Edison Project is in New York. Whittle is seeking new tenants for the building.

One thing Whittle is not apologizing for is the Edison Project: "When you look back on all this, Edison will be the most important thing we've done." Indeed, the project can offer Whittle some hope. Edison CEO Schmidt says he has obtained tentative contracts to operate 24 elementary schools for municipalities ranging from Dade County, Fla., to Wichita to Bridgeport, Ohio. That's more than Schmidt expected, and it puts Edison on track to open its first 10 schools by September, 1995.

The trouble is, Edison needs another \$50 million or so to actually run the schools. Schmidt has already spent \$40 million to design a curriculum and mar-

ison is a private enterprise, it can make more long-term investments in technology than local school districts, many of which face stiff public resistance to budget hikes.

In many ways, Whittle has more riding on Edison than any of his other ventures. Whittle acknowledges that some of his company's problems stem from the fact that he has spent so much time crusading for Edison. Also, sources say Whittle poured \$20 million of his own money into Edison last summer, after his last effort to find outside investors came up short.

Whatever his investment in Edison, Whittle's personal resources are considerable. He amassed a tidy fortune when Time bought its stake in the company in 1988. Whittle's personal take was \$40 million. And he hasn't hesitated to spend

his money. In addition to his East Hampton house, Whittle owns a townhouse off Fifth Avenue and a meticulously decorated apartment in New York's fabled Dakota. Friends say the townhouse and summer home each cost more than \$10 million. Whittle also owns a place in Knoxville, and sold his farm in Vermont.

**GLOBE-TROTTING.** Friends say his lifestyle has become more baronial since he married Priscilla Rattazzi, the niece of Italian industrialist Gianni Agnelli, in 1990. A few years ago, he bought and expensively decorated the Knoxville house to entice Rattazzi to spend more time

there. Despite that, Rattazzi spends most of her time in New York. So Whittle keeps up a grueling schedule of commuting between Knoxville, Manhattan, and East Hampton. Throw in trips to Channel One's studios in Los Angeles and overseas pilgrimages to meet investors, and Whittle's schedule rivals that of any globe-trotting mogul.

Despite all the adversity, Whittle's friends say he seems newly energized these days. Perhaps scrambling to save his company is the supreme challenge for a supreme salesman. And he may yet stage a comeback. For now, though, Chris Whittle's remarkable odyssey has taken a turn for the worse. It will take more than a spellbinding sales pitch to bring him back.

*By Mark Landler in New York, with David Greising in Chicago and Maria Mallory in Atlanta*



WHITTLE WITH HIS WIFE, PRISCILLA (RIGHT), AND ACTRESS ISABELLA ROSSELLINI

ket it to school districts nationwide. This fall, he and Whittle plan to raise more cash from both institutions and wealthy individuals. Schmidt says Edison can turn a profit and become self-financing after a couple of years. But even some former Edison board members are skeptical that Whittle will ever be able to make schools a profitable business. For one thing, Schmidt plans to make costly technological investments, such as networking computers at school with those in students' homes.

Observers have their doubts. "We've been trying to find ways to introduce technology into every classroom," says Joan A. Buckley, assistant director of the Educational Issues Dept. at the American Federation of Teachers. "We haven't been successful in that, let alone networking them into their homes," she adds. Schmidt counters that because Ed-





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# Science & Technology

MEDICINE

## THE NUMBER-CRUNCHERS DRUGMAKERS FEAR AND LOVE

Studies by Peto and Collins can make or break a drug

**R**ichard Peto has never treated a patient or shaken a test tube. Yet the 54-year-old Oxford University professor of statistics loves to talk about the millions of people he has spared from death. The impressive thing is, others tend to agree with him. "If you look at his work in heart, breast, and lung disease, it adds up to a lot of lives saved," says Dr. Thomas Chalmers, a sometime critic of Peto who is an adjunct professor of medicine at Tufts University.

Peto and his partner, Dr. Rory Collins, are the kings of a new statistical science called meta-analysis—literally, beyond analysis. At Oxford's Clinical Trial Service Unit, which they co-direct, they amass heaps of data from studies medical researchers have done on big killers and after some tweaking add them together. *Voilà!* Headline-grabbing, hard-to-refute conclusions emerge that can earn—or lose—hundreds of millions for drugmakers. Hoechst, Merck, Bristol-Myers Squibb, Wellcome Foundation, and Roche have sponsored Peto's independent reviews of their drugs—despite the risk of unfavorable findings. "Few investigators have the impact" of Peto and Collins, says Steven Weisman, research director at Sterling Winthrop, maker of Bayer aspirin in the U.S.

**THE NEXT ACT.** That's for sure. Since 1985, when Peto declared that tamoxifen, made by Zeneca Group PLC, boosted the five-year survival rate for breast cancer patients to 55% from 50%, sales of the drug have doubled. It was Peto and Collins who, in studies done in 1988 and 1994, found that aspirin helps treat—and prevent—heart attacks and strokes. Some 72% of U.S. heart attack victims now get aspirin vs. 38% in 1987.

Another splash, in 1991, involved t-PA, the blood-clot-busting drug that Genentech Inc. sells for \$2,200 a dose.

After the Oxford duo found that Hoechst's \$300-a-dose streptokinase was ineffective and a bit safer, t-PA's market share fell to 53% from 65%. It cost Genentech \$50 million in new studies to tip the balance back and recover its market share. Although Peto disavowed the decision, in June a U.S. Food & Drug Administration advisory panel approved Genentech's proposed label changes, in effect endorsing its drug.

### PETO'S GREATEST HITS

*Oxford University Professor Richard Peto and his partner, Dr. Rory Collins, use statistical studies to determine what causes killer diseases—and how to treat or prevent them. Some of their most influential findings:*



that t-PA is slightly more effective than cheaper brands.

For their next act, Peto and Collins plan a probe of cholesterol-lowering drugs. And come September, Peto and Collins will make waves with a new book in which he predicts that worldwide cancer deaths from smoking will reach 10 million a year by the 2020s. The book contradicts Devra Lee Davis of the U.S. Public Health Service, who argues that the sharp rise in U.S. cancers of the bladder, breast, and testicles over 20 years may be linked to pesticides, air pollution, and other chemicals in the environment. Peto, by contrast, attributes the rise in these—and all other cancers—to smoking.



former pack-and-a-half-a-day smoker himself, Peto earned a degree in mathematics and natural sciences from bridge University, plus a master's in statistics from Imperial College in London in 1967. By then he longed for real life. But his mentor, Sir Richard Doll—in the 1950s confirmed the link between smoking and lung cancer—won a position at Oxford and persuaded Peto to join him. Collins arrived 12 years later with a new M.D. Intending to stay a while, he never left.

**ETHERNESS.** In an office crammed with stacks of papers and with memos piled to walls, the lanky Peto focuses on the big picture—conceiving and publicizing studies. Across the hall sits Collins, who deals with researchers and does drug reviews. They live with their friends, 100 yards apart and a five-minute walk from the office, “in case you get desperate to talk,” says Collins. Both are motivated by something other than a desire for wealth—they each make about \$60,000 a year. “Anyone who

lunch with Tufts's Chalmers, who is often called the father of meta-analysis, is built around gathering data from existing studies and trying to make it all comparable. Some of the studies have thousands of patients, some a handful. Peto uses only randomized trials, in which half the patients get the drug being investigated and the rest another drug or placebo.

The controversial part of meta-analysis is merging the disparate studies. Say there have been a dozen trials examining one drug's effectiveness against cancer, all inconclusive because too few patients were involved in each one. If all 12 are lumped together, and some shrewd fudge factors are used to make the data more similar, the drug may be shown to work. The downside is that whether the result is legitimate or not depends heavily on the fudge factors.

Critics of Peto and Collins say their method is chancier than some, assuming greater homogeneity in trials and producing more definitive results. “I’ve dis-

lins, since they don’t get early peeks at the data. “But it’s in their interest for us to be seen as independent. If we can show unequivocally that a drug works, it’s a hell of a lot easier to sell.”

The two see increasing threats, particularly in the U.S., to both large randomized trials and meta-analysis. The first is a new statistical tool called outcomes research, which includes analyzing databases, such as hospital records, to see what treatments work best. The U.S. Agency for Health Care Policy & Research, created in 1989, is funding such studies, which cost much less than randomized trials. Wrong move, argues Peto: “If you try to review nonrandomized evidence, you can’t avoid the possibility of bias.” Dr. Richard J. Greene, director of the agency’s Center for Medical Effectiveness Research, disagrees. He calls outcomes research “useful for understanding current patterns in clinical treatment. It is not a substitute for randomized clinical trials.”

More threatening, Peto worries, is the brouhaha over alleged fraud in a 2,100-patient National Cancer Institute trial comparing two surgical procedures for breast cancer. In March, a doctor at a Montreal hospital was found to have altered the ages of 6 of 354 women. It didn’t affect the study’s results, but the deception prompted Congress to double the budget for auditing such trials. Frets Peto: “They’re going to make all sorts of extra rules. It’ll reduce the number of patients in random trials and the number of doctors who do them. Unless these people are stupid, they’ve got to realize this.”

Last March, Peto pleaded with medical writers to do nice stories on Dr. Bernard P. Fisher of the University of Pittsburgh, who led the breast cancer trial. He even urged Dr. Jerome Kassirer, editor of the *New England Journal of Medicine*, to dedicate an issue to Fisher and to “explain why large-scale randomized evidence... is so important.” Kassirer declined.

Most of Peto’s peers agree that his flair for figures more than compensates for such antics. “Just because he goes off the deep end sometimes shouldn’t diminish the credit he gets,” says Chalmers. Not much chance of that. Peto and Collins say they’ll keep stirring up trouble—and trying, indirectly, to save lives.

*By Randi Hutter Epstein in London*



**1985** They find that tamoxifen from ICI, now Zeneca Group, boosts the 5-year survival rate for breast cancer patients from 50% to 55%. Sales of the drug quickly double.

**1988** Their analysis of treatments involving 17,000 heart attack patients shows that deaths plunge 40% when victims are treated with a combination of Hoechst's streptokinase and aspirin. Use of both drugs for heart patients zooms.

**1991** They find that a \$300 dose of streptokinase is as effective as

t-PA, which Genentech sells for \$2,200 a dose, for dissolving blood clots. t-PA sales suffer until subsequent research by Genentech shows it to be marginally more effective.

**1994** An analysis based on 120,000 patients shows that aspirin helps prevent heart attacks and strokes. A new Peto book, due in September, argues that the increase in cancers caused by smoking—which he predicts will reach 10 million annually by the 2020s—accounts for all of the increase in world cancer rates.

names his sons Karl after Marx, Russell after Bertrand, Tom after Paine, and John after Trotsky is not after money,” says Dr. Charles Hennekens, professor of preventative medicine at the Harvard School of Medicine, referring to Peto’s boys. “We must be saving a few tens of thousands of lives a year in breast cancer; another few tens of thousands from aspirin,” says Peto of what impresses him. His smoking estimates “could save hundreds of thousands of more lives a year,” he adds. All three cases illustrate his strategy: Concentrate on common ailments, where minute drops in mortality benefit masses of patients. Peto’s method, inspired by a 1976

agreed with them on techniques,” says Nan M. Laird, chair of the department of biostatistics at the Harvard School of Public Health. Not many complain publicly: Peto “intimidates statisticians because he’s learned the clinical stuff, and clinicians because he knows statistics,” says Laird. His regard for nonbelievers is low. “I’m sick of them saying I’m mixing apples and oranges. Can’t they even find a different metaphor?”

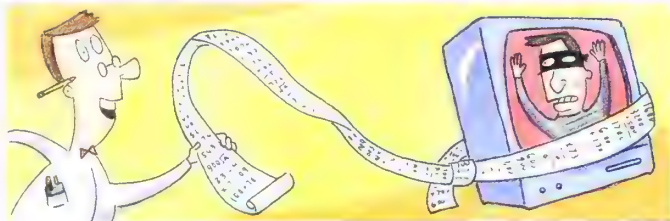
Much of the company-sponsored work that Peto and Collins do isn’t meta-analysis—it’s traditional trials involving hundreds of doctors worldwide. Usually, “it’s quite a long process to persuade companies” to sponsor such work, says Col-



# Developments to Watch

EDITED BY RUTH COXETER

## GETTING A CLEARER PICTURE OF CRIME—LITERALLY



**C**alifornia mathematicians and computer scientists are rescuing criminals from obscurity. Leonid Rudin, a founder of Cognitech Inc. in Santa Monica, used complex equations to clean up fuzzy footage of Reginald Denny's beating during the 1992 Los Angeles riots. He says his company will release a software package called Police Video Workstation late this year so local police departments can do their own scrutinizing.

The software teases out video details hidden by distortion, blurring, and low light. Other video-enhancement techniques rely on simpler linear equations—the kind used to calculate building strength and heat transfer. Partial differential equations, commonly used to design airplane wings or analyze the flow of blood in the heart, look at more variables and thus can decipher more detail in images. Police departments and insurance companies have expressed interest in the software. Meanwhile, Rudin is off to analyze film of the B-52 bomber crash in Washington state in June.

## NOW, LEDs MAY GIVE LASERS A RUN FOR THE MONEY

**L**ight-emitting diodes are the poor cousins of lasers. Although cheaper and more reliable than lasers, they're not as bright and can't turn on and off as rapidly. That's why lasers are the light sources of choice for fiber optics, laser printers, and fax machines. Now, though, scientists at AT&T Bell Laboratories have a brighter, faster light-emitting diode (LED) that uses so-called microcavity effects.

The microcavity, a tiny pair of mirrors less than one-thousandth of a millimeter apart, traps photons so that light is emitted in one direction. In the Aug. 12 issue of *Science*, the Bell Labs team announced a resonant-cavity LED that's five times as bright as today's LED. They also demonstrated the possibility of making one 10 times as bright and twice as fast. Of course, that's just 10% the brightness and speed of a laser. But lead author E. Frederick Schubert says that's good enough for short-distance fiber communications, such as between workstations in a building, as well as for laser-quality printers and fax machines. He estimates the LED could cost one-fifth as much as a laser and last 10 times as long.

## GIVE MRIs A LITTLE STATIC, AND THEY MIGHT BE CHEAPER

**S**tatic electricity isn't popular. If it's not blowing circuits, it's causing clothes to cling. But Lawrence M. Silverberg, an associate professor of mechanical engineering at North Carolina State University, says static electricity has a good side, too. For example, it could reduce the cost of the magnetic res-

onance imaging (MRI) systems used in hospitals and clinics.

MRI systems use an array of dish-type antennae to pinpoint the location of signals reflected from within a patient's body. "Fancy and expensive," these antennae could be replaced by one cheap electrostatic antenna that can change shape, says Silverberg. He pins the center of a thin conductive-polymer film to a metal plate. Given a static charge, the film stiffens. Then, juice fed to the metal plate produces a pulsive force that bends the film outward from its center, creating a dish antenna. By meticulously regulating the electrostatic energy, Silverberg can shape the dish so it plots the locations and directions of reflected MRI signals. The same technique could be used to make satellite antennae that could scan the earth by changing shape, eliminating the need to reposition the entire satellite. Several companies are negotiating for licenses to the patented technology, Silverberg adds.

## THESE AMPS ARE TUBULAR, MAN

**G**uitar players love the "warm" sound of amplifiers that use vacuum tubes. Players who intentionally overload them get sounds chip-driven amps can't match. Trouble is, vacuum tubes run hot, they wear out fast, they're more costly—and they're harder to find as the world moves to chips. So the music industry intensifies for solid-state amps that sound like tube amps.

Eric K. Pritchard, a custom-electronics designer in Berlin Springs, W.Va., thinks he has the answer. Pritchard spent ten years with oscilloscopes, computers, and musicians trying to divine the essence of tubes. He says other efforts failed by misunderstanding the nonlinear behavior of vacuum tubes and harmonic interactions between different stages of amplification. His company, Deja Vu Audio, has released its first product, the \$2,000 Amp 11, which can be equipped with plug-in modules to sound like such great amps of the past as Jimi Hendrix's Plexi and Leo Fender's Black Faced Twin. Pritchard has winning believers. "I wanted to take the thing apart and find out where the tubes were hidden," says Paul C. Bechtold, a feature writer for *Vintage Guitar* magazine. Pritchard hopes to license the technology for all sorts of amplifiers, including recording gear and stereos.

## A FABRIC THAT SUCKS UP SECONDHAND SMOKE

**O**vercome by second-hand smoke? The solution may be curtains for smokers. Tokyo-based Asahi Chemical Industry Co. says it has synthesized a polymer that bonds to such odor-causing elements as nicotine, acetaldehyde, and ammonium sulfide. Asahi says it has also learned how to bind the polymer to acrylic fabric.

Asahi's tests indicated one gram of the fabric can inhale the byproducts of 150 cigarettes and that treated fabric can go to the cleaners 10 times without losing potency. By 1996, Asahi hopes to use 1,000 tons of the fabric per year to carpet, upholstery, and curtain makers. It costs an extra \$1 a yard over untreated fabric.





## THE STATES SWING INTO WAY CONSTRUCTION

More than a dozen are building local fiber-optic networks

This past spring, a group of eighth-graders in Mount Ayr, Iowa, were comparing the benefits of manned and unmanned space flight. They wanted to pick the brain of a nearby legend: astrophysicist James Van Allen, a professor emeritus at the University of Iowa in Iowa City. But the 80-year-old Van Allen, who discovered the radiation belt around the earth that bears his name, wasn't up to making the 200-mile trek to the tiny farm town.

So Mount Ayr turned to a simpler solution: Iowa's state-owned \$100 million fiber-optic network, which connects hundreds of schools, hospitals, and public offices. Van Allen ambled down to a teleconferencing room at the university that is identical to a similar room at Mount Ayr High School. The one-hour interview session cost the school \$10, compared with \$500 for a commercial hookup.

**"GREAT LABS."** Iowa's new Information Highway system is one that other states view with great envy—and fear. Governors worry that to attract industry and jobs, they must begin building similar state-of-the-art communications infrastructures. So legislators are pouring millions of dollars into high-capacity, intragovernment networks, often designed and built by local telephone companies.

These systems, which carry voice, video, and data, are meant simultaneously to improve services and save money (table). According to a National Governors' Assn. report issued in July, more than a dozen states have in-

formation Superhighway projects under way. "The states are all elbowing each other out of the way to be in the lead," says one New York State official.

The efforts are getting kudos, and funding, from Washington. "The states are great laboratories for us," says Robert M. Pepper, chief of the Federal Communications Commission's Office of Plans & Policy. But they also are getting a fair amount of static. Some legislators grouse about the tens of millions of dollars these systems can cost. And experts wonder whether the networks can deliver on their promise of economic development. While "these projects can be helpful, it gets overplayed," says

Eli M. Noam, a Columbia University economics professor.

The skepticism isn't stopping states from plunging ahead with their plans. Iowa's system, which went on-line in November, 1993, is the first and also the largest. Planning for the project, built by Omaha-based MFS Network Technologies Corp., started during the farm crisis in the mid-1980s, when rural communities were going bust. The original aim was to link all of Iowa's public schools, providing them with access to universities and to professors such as Van Allen.

**BIG-HOUSE CALLS.** The hope was that a better-educated workforce could vie for new industry with areas boasting better school systems. "We wanted companies to locate in rural areas, so the schools there needed the opportunity to compete," says Governor Terry E. Branstad. The jury is still out on whether the network will lead to jobs.

But Iowa is not stopping at education. The state is linking all of its armories with the help of a \$10 million grant from the Pentagon. And \$20 million from the federal Health & Human Services Dept., is helping hospitals to purchase equipment for video linkups between doctors in distant locations.

Other states are starting out small with their network-building, setting up pilot projects that are aimed at improving education or health care. North Carolina is using a video link to slash medical costs for its inmates at Central Prison in Raleigh. Doctors at East Carolina University Medical School in Greenville—more than 100 miles away—can monitor a prisoner's heartbeat as a nurse uses a digital stethoscope. The cost of such video consultations is \$70, compared with \$750 the state used to pay to transport patients and their guards to Greenville. Since the program started in 1990, the state has saved \$211,000 on treatment, while spending only \$100,000 on the network. "This is not just a sexy thing to do," says Lowell

### INTRASTATE PROJECTS ON THE INFORMATION SUPERHIGHWAY



**IOWA** has the first state network up and running—and the largest (above: the Stark Armory Switching Center)

**GEORGIA** started up a statewide fiber-optic network in January that links colleges, grade schools, and technical schools

**KENTUCKY** will issue a contract this fall to develop a communications system to replace the jumble of government networks

**LOUISIANA** last year launched TeleMed, a program to provide a video linkup between urban hospitals and those in rural areas

**SOUTH CAROLINA** developed an extensive backup communications network in 1989, after Hurricane Hugo wiped out coastal service

**TEXAS** is setting up computer kiosks in public spaces to better distribute information about state services

DATA: NATIONAL GOVERNORS' ASSN.



Christy, a researcher at the hospital. "There are real economic benefits."

Which doesn't mean these projects enjoy clear sailing. In Iowa, Branstad ignited a political firestorm in 1991 when he announced that the network would be competitively bid rather than handed to local phone companies. "It was a very emotional battle," says Robert Eide of MFS, the low bidder.

**"DOUBLE WHAMMY."** The telephone companies tried to kill the project, arguing that the state had no business owning a network. They also warned that if the state shifted its \$7 million in yearly phone traffic to a private operator, rates for other customers would soar. "This is a double whammy for taxpayers," complains Todd Schulz, state director of the Iowa Telephone Assn., which represents local phone companies. "Not only do they have to pay to build it, but they may have to pay higher phone rates, too." In fact, rates have not gone up since the network began operations, but Schulz still insists that hikes are inevitable.

To avoid similar flak, many states are working with their local phone companies. But without competitive bidding, costs can be inflated. That presents other roadblocks, as Maryland Governor William Donald Schaefer found. Last summer, he made a deal with Bell Atlantic Corp. to wire most of the state's schools with videoconferencing equipment so students can watch teachers in distant classrooms. But local cable companies protested to the state attorney general that the contract, which could be worth more than \$50 million over 10 years, was issued without opening up the bidding process to competition. The state opened the contract to competition but required any bidder to provide switching service—which only the phone company could do. To no one's surprise, Bell Atlantic was the sole bidder. Outraged cable companies have filed a protest.

Most state projects are faring better. But those who think they'll be part of a seamless national information interstate may be disappointed. These networks are more likely to remain high-tech local roads. "There is no coordination" between the states, says Harry M. Trebing, a Michigan State University economics professor. "I'm not sure that's an optimal way to develop a network."

Governors, though, aren't too worried about the big picture. If they can improve services, save money, and create a few jobs, the funds for paving these high-tech roads will seem well spent.

*By Mark Lewyn in Washington, with bureau reports*

## People

CHIEF EXECUTIVES

# THE ROCKEFELLER PROTEGE WHO'S POLISHING THE DIME

Richard Parsons pulls off a strategic merger for his revived thrif

**E**ver since he joined New York's Dime Savings Bank in 1988, many have expected Richard D. Parsons to leave the thrift at any moment. Politics, after all, was said to be his first love; law, a close second. Parsons had distinguished himself during the 1970s both as a valued Vice-Presidential aide to the late Nelson A. Rockefeller and as a member of President Gerald R. Ford's domestic-policy team. A black Republican who had soared during the 1980s as a respected attorney, Parsons, it seemed, could write his own ticket.

Six years later, though, the 46-year-old executive is still at Dime's helm. And, for an erstwhile lawyer, he has done a solid job of turning around a left-for-dead savings bank that lost \$92.3 million in 1989. Last month, Parsons merged Dime with rival Anchor Bancorp Inc. to create the nation's fourth-largest thrift. As chairman of the new Dime Bancorp, an institution with combined assets of \$20 billion, he will be banking's highest-ranking African American.

**FICKLE RATES.** So why are close observers still convinced he isn't long for Dime? Because even Parsons balks at referring to himself as a banker. "This is not my highest calling," he says readily. "It doesn't call upon my best abilities." While he insists he harbors "no secret plan to go into politics," he would like to return to public service someday. "I think it's a question of taking care of some professional and personal commitments first," says New York Mayor Rudolph W. Giuliani, who in 1993—to no avail—offered Parsons a job as deputy mayor for economic development.

Parsons' chief commitment is to steer the new Dime to calm waters. The problem is, the bank's future is uncertain at best. Parsons and former Anchor Chairman James M. Large Jr. (now Dime's chief operating officer) both turned around ailing thrifts over the past few

years by cutting costs and cleaning up problem loans. But they got a big boost from low interest rates—rates that have since turned up sharply, threatening squeeze profits.

Moreover, even though the new Dime will likely be stronger than Anchor, Dime would be alone—assuming the partners can merge without turmoil—remains a shrimp in its market. New York is overcrowded with such giants as Citibank, Chemical Bank, and Chase Manhattan Bank. Dime brings little to the party that they don't have. Indeed, many analysts think Dime's only

future lies in selling out to a bigger bank. Says Thomas F. Theurkauf, Keefe, Bruyette & Woods Inc.: "In a couple of years, it's not inconceivable for Dime to be a takeover candidate."

Dime's chairman, however, surprisingly, prefers to look on the bright side. Sitting in his office overlooking Manhattan's Rockefeller Center, he points out confidently

that Dime and Anchor have both strong followings among working-class depositors—conservative investors who like to put their nest eggs in a safe place. Parsons insists Dime can take them with a full range of financial services, "whether it's bonds, mutual funds, insurance, annuities, or financial planning." Citi and Chase have those things too, he admits. But Dime can build a niche as New York's community bank.

Analysts say adding services is harder than it looks. But Parsons does know a lot about the working-class denizens of New York's outer boroughs. He was born in Brooklyn's Bedford-Stuyvesant section and raised with his three sisters and brother in Jamaica, Queens. His father, a graduate of Hampton University, was a radio technician for the former Pan American World Airways Inc. His mother was a homemaker and nurse.

Parsons was a smart kid—he moved ahead two grades in school and headed

PARSONS SAYS THAT  
BANKING "IS NOT MY  
HIGHEST CALLING"  
AND THAT SOMEDAY  
HE MAY WELL RETURN  
TO PUBLIC SERVICE



he University of Hawaii  
he was only 16. At that  
he lacked the discipline  
ge required. He walked on  
basketball team (earning a  
larship), but "I had miser-  
grades," he says, "and was  
social chairman of my fra-  
ty for two years in a row."  
ons left college six cred-  
ort of his history degree.  
he did meet his wife, Lau-  
Hawaii and says pointed-  
at marriage stabilized his  
"I got serious. About my  
ation, about my career,  
it life. I realized that it  
up to me to accomplish  
I wanted."

is Law School Admission  
scores were good enough  
arn admission to Albany  
School, where he finished  
in his class in 1971. That  
acted the attention of Rob-  
R. Douglass, then counsel  
ew York Governor Rocke-  
r (and later vice-chairman  
hase). Parsons joined the  
a and was a hit. When  
efeller went to Washing-  
in 1974 as Gerald Ford's  
-President, Parsons went.  
A year later, he became  
eral counsel of Ford's do-  
council.

**UNBLESHOOTER.** Since joining  
e in 1988, his job has been  
exercise in crisis control.  
1 after he arrived, a plunge  
ortheast real estate drove  
thrill to the edge of col-  
e. "I had no idea the depth  
which the whole industry  
ld plunge," Parsons recalls.  
ldn't think I was signing  
for a pleasure cruise. Nor  
I think we'd have to sail  
ugh a hurricane."

Parsons cut costs by closing  
k branches and slashing half  
he 4,000-employee payroll.  
n, he tackled the thousands  
low documentation" mort-  
es Dime had made without  
ifying the applicant's em-  
ment or income. At the end of the  
t quarter, nonperforming loans were  
% of assets, down from 11% in 1993.  
hor's rate is much better at 0.5%.  
e thrift industry average, analyst  
urkauf says, is 2.8%.

Parsons will continue to clean up his  
tfolio while better managing the new  
ne's 94 banking offices in New York  
l New Jersey. (It has five in Florida,  
.) One goal is to acquire smaller  
lks in the New York area to keep  
lving. Of course, success in putting



## THE PARSONS TALE

### BORN

Brooklyn, N.Y., 1948

### EDUCATION

- Attended University of Hawaii, 1964-68
- J.D., Albany Law School, 1971

### POLITICS

- Assistant Counsel and First Assistant Counsel to New York Governor Nelson Rockefeller, 1971-73
- First Assistant Counsel to New York Governor Malcolm Wilson, 1973-74
- Deputy Counsel to Vice-President Rockefeller, 1974-75
- General Counsel and Associate Director of the White House Domestic Council, 1975-77

### LAW

Patterson, Belknap, Webb & Tyler, New York, 1977-88

### BANKING

Dime Savings, president, 1988; chairman, 1990-present

### NEW YORK CITY

- Head of Mayor Rudolph Giuliani's transition team, 1992
- Chairman of NYC Economic Development Corp.

Dime on a more solid footing—or selling it—would only enhance Parsons' stock as a candidate for the public sector. He isn't saying what sort of position he would seek, but there's little doubt he'll eventually put his hat in the ring. "I don't know that he will go into elective politics, but he certainly will go back into government," says retired federal Judge Harold R. Tyler Jr., Parsons' mentor at Patterson, Belknap, Webb & Tyler, the New York law firm he joined after his stint in Washington.

Parsons acknowledges that being a black Republican makes him stand out. But he insists it is "not something I think of as having special meaning or significance. More and more, black Americans are finding that it is not good to be in a position where you can be taken for granted, as black Americans are by the Democrats."

Parsons brands himself a Rockefeller Republican: fiscally conservative, socially less so. Early on, he recoiled at what he saw as the Democratic dogma: that the world was unfair because it conferred more benefits on some than on others, and that making it fair meant taking from the rich and giving to the poor.

He acknowledges that he himself owes a great debt to the Rockefeller organization for taking him in. "The old-boy network lives," he says. "Everybody I knew as a kid, or half of them, were in jail or killed, and the other half were hiding out. So I didn't grow up with any of the old boys. The Rockefeller entourage created a network for me." (Interestingly, Parsons' grandfather was a caretaker on the Rockefeller estate in Pocantico Hills, N.Y., where, in 1986, the family sold Parsons a home.)

Once given the connections Parsons created his own opportunity. "My own experience in life," he says, "has suggested to me that you cannot give somebody something of enduring value; those things have to be earned. If you just give something to somebody who has not invested in obtaining it, they have no respect for it."

Parsons is all for commercial investment in the inner city as a way to cure social ills. To help urban citizens help themselves, he advocates that banks team with pension funds

and others to spread the risk of funding ostensibly risky projects. He has also spent time heading a skills-training program for released prison inmates, drug addicts, and others.

But politics will have to wait. Parsons and Large have a job to do to make Dime competitive. "We're confident we'll have enough muscle," Parsons says. Given the power of rivals like Citi and Chase, some luck would help, too.

*By Veronica Byrd, with Kelley Holland, in New York*

TIM RICE



## DO YOU REALLY NEED THAT LAWYER?

**O**n Wednesdays in Alameda County Family Court, California Superior Court Judge Roderic Duncan presides over about 25 cases before lunch—roughly 10 more than other mornings. It is *pro per* (also known as *pro se*) day, when combatants appear without lawyers. “I can dispose of *pro per* cases in less time,” says Duncan. “Many of the cases boil down to pretty simple things.”

With attorney fees spiraling above \$200 an hour, more people who can’t afford the tab—or choose not to pay it—are representing themselves, most often in such matters as contract disputes with plumbers, non-contentious divorces, or straightforward personal-injury claims. The reasoning is simple: Why let a lawyer grab a third or more of your insurance settlement or damage claim in a trial when you might be able to do as well on your own?

**LOSING BADLY.** “In most cases, the amount you’ve got to pay for even a very good and conscientious lawyer is simply too much,” contends Joseph L. Matthews, the author of *How To Win Your Personal Injury Claim* (\$24.95, Nolo Press). “Even if a lawyer in a standard case can get you 10% or even 25% more than you might get yourself—which is already stretching it—the lawyer is charging 33% to 40%. You lose badly.”

Many agree. “The number of people proceeding *pro se* is dramatically greater than in the early 1980s,” says Sara-Ann Determan, chair of an American Bar Assn. committee that studied di-





cases in Maricopa County. In 1990, 88% of Maricopa's cases involved at least one self-represented litigant, down from 24% a decade earlier. In 2% of the cases, both parties eschewed attorneys. Of those who served as their own lawyers, 72% said they would do so again.

Attorneys are not even common in many small-claims courts—except, of course, to handle their own cases. The purpose of these forums is to resolve disputes quickly and informally in disputes involving modicum of money (typically \$0 to \$5,000). *Everybody's Guide To Small Claims Court* by Ralph Warner (\$18.95, Nolo Press) lists state-by-state regulations and includes tips regarding your case. If your dispute is automobile-related, you can obtain free pamphlets on small claims and lemon

by sending a self-addressed stamped envelope to the Center for Auto Justice, 2001 S Street N.W., Suite 410, Washington, D.C. 20009-1160.

One suggestion that you should shun lawyers is when they are involved in a complex injury or discrimination case, or one with a lot of money at stake. "You may not think of anything a lawyer would do for you," says Harvey W. Land Jr., a partner at Shon, Sawyer, Johnston, and Woody & Cole in Miami. "You should a criminal defendant proceed without counsel. 'If you're charged with a crime, I would recommend going to a lawyer for no other reason than there are so many pitfalls and intricacies in criminal law,'" says Steven L. Kessler, a Manhattan attorney. In criminal suspects can go on a public defender.

**THE SKINNY.** For those who go it alone, "it is terribly difficult to figure out the little nitty gritty about what color paint to use," says Los Angeles attorney Sara J. Berman-Barrett, who, with Edward Bergman, a law professor at the University of

California at Los Angeles, co-wrote *Represent Yourself in Court* (\$29.95, Nolo Press). Indeed, preparation is critical. For example, she recommends observing ahead of time the judge who will hear the case. Clerks may clue you in about

public records to get the skinny on your opponent: If he or she doesn't have sufficient assets, it's probably pointless to proceed with the claim. "Novices should understand that lawyers should have no greater access to evidence

case, Bergman and Berman-Barrett recommend asking witnesses a few background questions, to calm any jitters. Then, when you're ready to zero in on the pertinent events, you can ask a combination of questions: narrative (describe the events of May 1), open-ended (what did the car look like after the accident?), or closed (what color was the car?). Be careful asking friendly witnesses leading questions (the car wasn't red, was it?). Opposing counsel will likely object, and the judge will probably not allow your question. Leading questions are acceptable during cross-examinations, however, because there is little chance that an opposing witness will falsely agree with you.

**NO HEARSAY.** Nonlawyers should also learn the rules of evidence. For one thing, evidence you present must have relevance: That is, there must be a logical link between what you submit and the legal claim you are making. In most instances, hearsay—evidence from witnesses not present in court, where they can be seen and cross-examined—is not admissible. When you suspect the opposition has introduced improper evidence, you can object. But do it fast—to keep the judge and jury from hearing something prejudicial.

Even the best-prepared self-litigants may be wise to call on a lawyer at some point. A number of attorneys are "unbundling" their services and coaching people who are otherwise handling their own cases. Legal coaches might advise you on the strength of your case or assist in preparing documents. Los Angeles attorney Forrest S. Mosten, a family-law specialist, has set up a library with consumer-oriented law books and lawyer-training videotapes. Self-help clients can browse as long as they like for no charge. But when they sit with Mosten, the meter starts ticking. He'll dispense advice in five-minute intervals, at his regular hourly rate of \$350. *Edward Baig*

## WITH ATTORNEY FEES ABOVE \$200 AN HOUR, MORE PEOPLE ARE REPRESENTING THEMSELVES IN COURT—in straightforward disputes, divorces, and injury cases

regulations, and some courts offer booklets outlining rules.

Before filing or answering a lawsuit, you should informally quiz witnesses and gather bank records, medical charts, police reports, or insurance claim forms. You should also search real estate and other

and witnesses than they do," says Bergman.

In the pretrial phase, you should consider a settlement. It's no sign of weakness to reach an accord before trial: Even when lawyers are involved, most cases are settled out of court.

If the case goes to trial, nonlawyers may face hostility from the bench. On the other hand, judges could cut newcomers some slack. "If anything, it's more difficult for a lawyer to face a layman adversary, because the legal system will bend over backward more often than not to show that it's fair," says Richard J. Kurtz, a New York attorney specializing in trial work.

Opposing counsel may attempt to throw you off with complicated motions or by requesting a jury trial. But again, being an outsider sometimes can work in your favor. Says Judge Duncan: "You dig your toe in the carpet and say: 'Ladies and gentlemen of the jury, I'm really sorry you have to be here to do this.' I was perfectly willing to have the judge decide the case, but the other lawyer [requested a jury]. Please forgive my ineptness. I'll do the best I can.' Wow, the jury starts looking daggers at the lawyer."

Making speeches is not permitted when you are directly examining witnesses: You'll have time during closing arguments. Before delving into the specifics of the

### TIPS ON PREPARING FOR COURT

 **Make a trial notebook covering such matters as what you must prove or disprove, the evidence you have, and the witnesses you want to call.**

 **Ask the court clerk about rules and deadlines.**

 **If it is possible, size up ahead of time the judge who will hear your case.**

 **Rehearse your opening statement, direct and cross-examinations, and closing arguments in front of a trusted friend or relative.**

 **Prepare witnesses to testify, and verify that they'll show up. If necessary, subpoena them.**

 **Prepare a crib sheet with a list of common objections.**

 **Consult with a legal coach if necessary.**

DATA: REPRESENT YOURSELF IN COURT



## Phones

### TAKE YOUR MESSAGE TAPE AND TOSS IT

In this brave new world of anytime, anywhere communications, people get antsy about missing their phone calls. Which is why some 60% of U.S. households have an answering machine. Ah, but what a frustrating piece of equipment it is. The tape can break, the power can go out and leave messages unrecorded for hours, or you can mess up the complicated set of codes needed to check messages remotely and instead erase them all. As one anguished answering-machine victim wails: "With all of our techno-accomplishments, why can't someone come up with a foolproof way to handle phone messages?"

Well, they're trying. The latest key to more reliable performance is digital technology. The new crop of digital answering machines provides features unheard of in old-fashioned cassette-tape models. Local telephone companies with fancy digital switches are offering customers a home version of the voice-mail systems used by most offices. And a personal computer, when it is equipped with a modem and special software, can turn into the most sophisticated answering machine on the block.

**NO MOVING PARTS.** Digital answering machines have been around for about six years, but a recent wave of cheaper, easier-to-use models from AT&T, Sony, PhoneMate, Panasonic, and several other manufacturers makes this option more attractive. The big advantage: no moving parts. A microchip records incoming and outgoing messages. That one change makes a vast improvement in reliability, since the first thing to malfunction on most answering machines is the tape. Because the mi-



crochip is programmable, manufacturers can also build in such high-tech features as a gizmo to note the date and time of each message. And you can instantly play, replay, skip, or delete any message at whim.

The fanciest models act something like a switchboard. AT&T's 1545, for example, is a combination speakerphone and answering machine, with four mailboxes for incoming

**With new digital answering gear, less can go wrong**

messages. You can record different outgoing messages and switch between them by just pushing a button. For each message, a display shows the date, time, and which incoming line it was on. It can store up to 26 minutes worth of messages.

Bogen Communications' Friday, billed as an "electronic receptionist," is even more elaborate. It features music-on-hold capabilities and re-

mote call forwarding. This kind of gadgetry doesn't come cheap, though. The 1545 lists at \$219.99 and the Friday at \$399.

There are plenty of cheaper models. AT&T's 1339 lists for only \$89.99. But it has a problem common to low-end digital machines: The microchip can't store as many messages as a tape. With the 1339, messages are limited to a minute in length, and total capacity is only seven minutes.

Sound quality is another negative. The recording on a microchip tends to be tinny and scratchy, so listen to several models before buying one. Some also lack a backup electrical supply. If there's a power outage, the messages vanish.

If all this seems too complicated, you can call your local phone company and order in-home voice mail. The service usually costs between \$6 and \$8 a month and is the ultimate in convenience. You just pick up your phone when you get home, and a beep will alert you to any messages. Punch in your password and retrieve your messages, recorded with the same sound

quality as the phone system offers. The service is accessible from anywhere, offers lots of capacity, stores messages indefinitely, and, like digital machines, allows instant and random access. Of course, you pay for the service month after month, but it ultimately costs less than an answering machine, but it's about as most reliable of the available options. Answering machines always break. The phone company doesn't, Evan Schwartz, a ton-based freelance writer, explaining he chose home voice mail.

**FEELING OF LOSS.** That's not exactly true. Some home voice-mail subscribers complain the service doesn't work down at times—and when it happens, all the messages are lost. But breakdowns are rare. A more common complaint is the lack of any blinking message light. The only way to tell if a message has come in is to pick up the phone and check. "It's easy to forget," says Schwartz. He adds, "that's a convenient excuse for not calling someone back."

If you've laid out money for a PC in the past year, chances are you can turn that into a most cutting-edge answering machine around. Several manufacturers, including Compaq Computer, AST Research, and Packard Bell Electronics, offer computer-based phone management systems as a standard feature. Just plug the computer's modem into the wall jack, and your PC can do voice mail—with a mailbox for each family member, as well as receive faxes. You can check your messages remotely, reroute them to another number, and even have the PC read you a fax or an electronic-mail message over the phone. In other words, you need never miss any message ever.

Catherine A.



hopping for municipal bonds sure isn't like shopping for clothes. A mantra among many buyers is "Never pay more than par," but munis are one place where you are often off when you pay a premium.

This is especially true now. One thing, premium bonds—which sell above their value because their coupons are higher than prevailing rates—are less sensitive to interest-rate increases than

discount bonds. That's because they generate a larger cash flow, which can be reinvested at higher rates. All bonds fall in value if rates continue to increase, "but the downhill slope for a premium bond is less severe," says Eugene Chitnis, a partner at Wynn Brothers Harris & Co. in New York.

**WORTHLESS.** Also, a gain in the tax law on premium bonds is more of an edge on discount bonds. The yield on a discounted bond—the \$100 you get at maturity if you pay \$900 for a \$1,000-par bond—used to be taxed at the capital-gains rate—currently 28%.

If the bond was purchased after Apr. 30, 1993, the gain is treated as ordinary income. This makes a difference in the aftertax return on discount bonds, especially now that the top marginal rate is up to 39.6%. The change also drives down the price of discount bonds "faster and faster," says Raiter. Since the market will factor in the eventual tax liability, premium municipal bonds produce no gains at maturity.

## Smart Money

### PREMIUM BONDS: HIGHER PRICE, BETTER DEAL

The higher yield you get each year is tax-free.

Corporate and Treasury bonds selling at a premium also enjoy more price stability than is the case with par or discount bonds—because of their higher annual payments.

better value for the price.

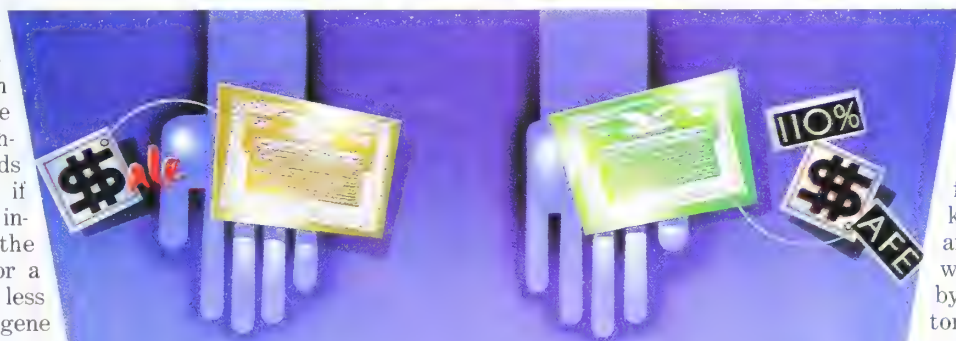
"Individual investors, for the most part, are absolutely clueless about bond arithmetic" and only want to buy bonds at a discount, says Jay Chitnis, a bond dealer at Stoeber Glass & Co. in New

York. A 15% premium—can be as much as 0.5% higher than for a similar discount muni, says Chitnis. For example, a \$10,000 investment in California state bonds with a 7.5% coupon selling at a 14% premium would grow to about \$21,330 by the time the bonds matured in 13 years, assuming you reinvest the coupons and rates don't change dramatically. A comparable investment in California munis with a 5% coupon selling at a 8% discount would

grow to \$20,480, for someone in the 31.7% tax bracket, according to Chitnis.

The same spreads can't be found in the markets for corporate and Treasury bonds, which are dominated by professional investors who won't shy away from a bond just because it is trading above par.

There are some disadvantages to premium bonds. The biggest is that they are subject to calls because of their higher coupons. If you buy a bond at a premium and a year later it gets called, you will be stuck with a loss of principal. Check to see if the bond you're buying is callable. Also, if you spend the income as you get it instead of reinvesting it, you'll end up with less principal at maturity. That shouldn't be too much of a shock, since you'll have been reaping higher coupon payments. And it's less than the shock awaiting discount muni buyers when they learn that the gain on their bonds at maturity—which seemed like such a good deal—will be taxed as much as 39.6%. *Amey Stone*



### HOW PREMIUM MUNIS STACK UP

| California bonds* | Yield 10/11/93 | Coupon rate | Before-tax yield to maturity | After-tax yield to maturity | Price change if rates rise 0.5% |
|-------------------|----------------|-------------|------------------------------|-----------------------------|---------------------------------|
| PREMIUM           | \$1,064        | 6.375%      | 5.40%                        | 5.00%                       | -4.33%                          |
| PAR               | 1,000          | 5.75%       | 5.75%                        | 5.75%                       | -5.47%                          |
| DISCOUNT          | 906            | 5.375%      | 5.70%                        | 5.70%                       | -5.55%                          |

\*Assumes 10% discount, 10% premium, 10% yield to maturity, 10% tax rate.

But only in the municipal market do premium bonds yield substantially more to maturity than other bonds of comparable maturity and quality. This is because the municipal market is dominated by small investors, who often have an aversion to paying a premium—even when it's in their best interests. Since there's less demand for premium munis, buyers get

York. "Try to sell an 80-year-old client a bond at a 15% premium. It's not going to happen." Premium bonds are also less marketable to trust officers, who have a fiduciary responsibility not to erode the principal of a trust.

With softer demand for premium munis, the yield to maturity—a measure that factors in both the annual coupon payments and any in-

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■ **INFREQUENT FLIERS.** Northwest Airlines WorldPerks was named the best frequent-flier

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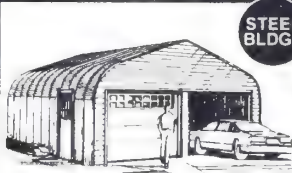
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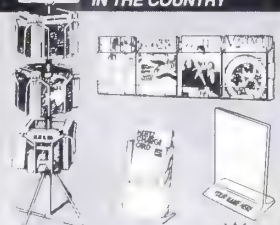
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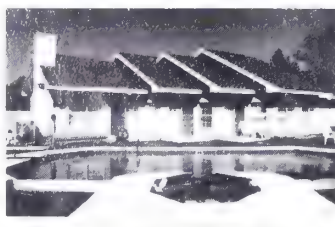
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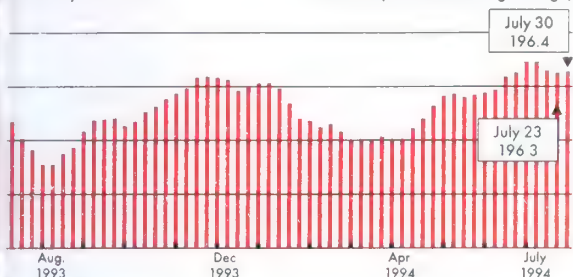
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# Business Week Index

## REDUCTION

from last week: 0.1%  
from last year: 3.8%

1967=100 (four-week moving average)

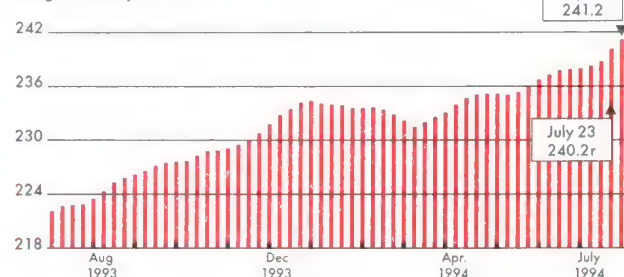


The **reduction index** was nearly flat in the week of July 30. But auto and plants reopened after model changeovers, indicating increases in the index in weeks. Coal, paperboard, paper, and lumber output and rail-freight traffic increased. Production of steel and electric power fell, and crude-oil refining was unchanged. As a result, the unaveraged index rose to 199.1, from 197.0 for July, the index fell slightly to 196.4, from 196.8 in June.

BW production index copyright 1994 by McGraw-Hill Inc

## LEADING

Change from last week: 0.4%  
Change from last year: 8.2%



The **leading index** increased during the week ended July 30. Higher stock prices and faster growth in the M2 money supply offset the slower growth rates for real estate loans and materials prices. Bond yields were unchanged, and data on large-business failures were unavailable. Before calculation of the four-week moving average, the index dropped to 242.2, from 242.7. The index rose to 241.1 for the entire month of July, from 238 in June.

Leading index copyright 1994 by Center for International Business Cycle Research

## REDUCTION INDICATORS

|                                          | Latest week | Week ago  | % Change year ago |
|------------------------------------------|-------------|-----------|-------------------|
| /6) thous. of net tons                   | 1,795       | 1,769#    | -1.6              |
| 8/6) units                               | 108,987     | 114,052r# | 17.3              |
| (8/6) units                              | 108,989     | 106,089r# | 30.6              |
| C POWER (8/6) millions of kilowatt-hours | 68,046      | 68,201#   | 2.6               |
| OIL REFINING (8/6) thous. of bbl./day    | 14,402      | 14,153#   | 1.7               |
| /30) thous. of net tons                  | 19,925#     | 19,374    | 20.0              |
| OAD (7/30) thous. of tons                | 883.3#      | 863.4r    | 8.0               |
| 7/30) thous. of tons                     | 826.0#      | 814.0r    | 4.3               |
| (7/30) millions of ft.                   | 504.5#      | 457.9     | 6.6               |
| EIGHT (7/30) billions of ton-miles       | 24.1#       | 23.3      | 15.3              |

# American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFP, Association of Railroads

## FOREIGN EXCHANGE

|                            | Latest week | Week ago | Year ago |
|----------------------------|-------------|----------|----------|
| SE YEN (8/10)              | 101         | 100      | 102      |
| N MARK (8/10)              | 1.58        | 1.58     | 1.71     |
| POUND (8/10)               | 1.54        | 1.54     | 1.46     |
| FRANC (8/10)               | 5.40        | 5.41     | 6.05     |
| AN DOLLAR (8/10)           | 1.37        | 1.39     | 1.31     |
| FRANC (8/10)               | 1.33        | 1.34     | 1.53     |
| N PESO (8/10) <sup>2</sup> | 3.388       | 3.380    | 3.154    |

# Major New York banks. Currencies expressed in units per U.S. dollar, except for British pounds expressed in dollars

## COMMODITIES

|                                               | Latest week | Week ago | % Change year ago |
|-----------------------------------------------|-------------|----------|-------------------|
| 8/10) \$/troy oz.                             | 378.300     | 378.450  | 0.6               |
| CRAP (8/9) #1 heavy, \$/ton                   | 136.50      | 117.50   | 21.3              |
| UFFS (8/9) index, 1967=100                    | 212.3       | 213.9    | 1.6               |
| l (8/6) c/lb.                                 | 111.7       | 115.7    | 22.1              |
| NUM (8/6) c/lb.                               | 70.0        | 71.0     | 23.3              |
| (8/6) #2 hard, \$/bu.                         | 3.56        | 3.53     | 10.2              |
| l (8/6) strict low middling 1-1/16 in., c/lb. | 71.30       | 74.18    | 29.6              |

s: London Wednesday final setting, Chicago market, Knight-Ridder Commodity Research Metals Week, Kansas City market, Memphis market

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. ern Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

## LEADING INDICATORS

|                                            | Latest week | Week ago   | % Change year ago |
|--------------------------------------------|-------------|------------|-------------------|
| STOCK PRICES (8/5) S&P 500                 | 459.70      | 454.53     | 2.4               |
| CORPORATE BOND YIELD, Aaa (8/5)            | 7.96%       | 8.05%      | 13.1              |
| INDUSTRIAL MATERIALS PRICES (8/5)          | 104.6       | 104.7      | 9.8               |
| BUSINESS FAILURES (7/29)                   | NA          | 316        | NA                |
| REAL ESTATE LOANS (7/27) billions          | \$432.3     | \$432.9r   | 5.0               |
| MONEY SUPPLY, M2 (7/25) billions           | \$3,567.0   | \$3,561.2r | 2.4               |
| INITIAL CLAIMS, UNEMPLOYMENT (7/23) thous. | 329         | 390        | -16.9             |

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

## MONTHLY ECONOMIC INDICATORS

|                                       | Latest month | Month ago | % Change year ago |
|---------------------------------------|--------------|-----------|-------------------|
| BUSINESS WEEK PRODUCTION INDEX (July) | 196.4        | 196.8r    | 3.9               |
| BUSINESS WEEK LEADING INDEX (July)    | 241.1        | 238.0r    | 8.2               |
| EMPLOYMENT, CIVILIAN (July) millions  | 122.5        | 122.4r    | 1.8               |
| UNEMPLOYMENT RATE, CIVILIAN (July)    | 6.1%         | 6.0%      | NM                |

Sources: BW, CIBCR, BLS

## MONETARY INDICATORS

|                                      | Latest week | Week ago   | % Change year ago |
|--------------------------------------|-------------|------------|-------------------|
| MONEY SUPPLY, M1 (7/25)              | \$1,158.6   | \$1,153.1r | 6.7               |
| BANKS' BUSINESS LOANS (7/27)         | 298.2       | 343.2r     | 9.1               |
| FREE RESERVES (8/3)                  | 875         | 352r       | 894.3             |
| NONFINANCIAL COMMERCIAL PAPER (7/27) | 149.6       | 153.6      | -6.5              |

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

## MONEY MARKET RATES

|                                        | Latest week | Week ago | Year ago |
|----------------------------------------|-------------|----------|----------|
| FEDERAL FUNDS (8/9)                    | 4.23%       | 4.21%    | 2.98%    |
| PRIME (8/10)                           | 7.25        | 7.25     | 6.00     |
| COMMERCIAL PAPER 3-MONTH (8/10)        | 4.81        | 4.69     | 3.20     |
| CERTIFICATES OF DEPOSIT 3-MONTH (8/10) | 4.78        | 4.67     | 3.15     |
| EURODOLLAR 3-MONTH (8/5)               | 4.68        | 4.73     | 3.18     |

Sources: Federal Reserve, First Boston



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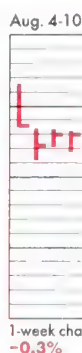
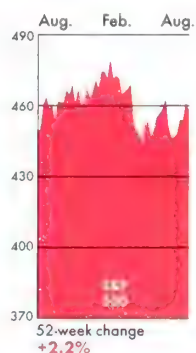
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# Investment Figures of the Week

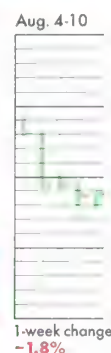
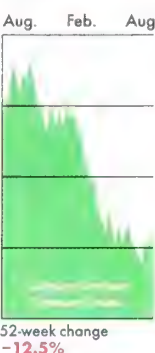
## STOCKS

Stocks accelerated and...  
...sputtered, but the...  
...market remained in a nar-  
...ing range. Friday's strong-  
...pected employment re-  
...d to fears that the Aug.  
...licymaking committee  
...will bring the fifth interest-  
...so far this year. Bond  
...sending the yield on the  
...reasury to 7.57%. Mean-  
...dollar strengthened at  
...ect of rising rates and an  
...outlook for trade talks  
...the U.S. and Japan.

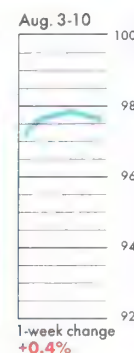
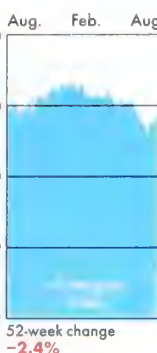
## STOCKS



## BONDS



## THE DOLLAR



## MARKET ANALYSIS

| SECTORS                      | Latest | % change Week | % change 52-week |
|------------------------------|--------|---------------|------------------|
| INDUSTRIALS                  | 3766.8 | -0.7          | 5.1              |
| COMPANIES (S&P MidCap Index) | 172.7  | 0.9           | 1.8              |
| COMPANIES (Russell 2000)     | 246.4  | 0.3           | 2.7              |
| COMPANIES (Russell 3000)     | 264.3  | -0.1          | 1.5              |

| FINANCIAL STOCKS      | Latest   | % change (local currency) Week | % change 52-week |
|-----------------------|----------|--------------------------------|------------------|
| (FINANCIAL TIMES 100) | 3167.0   | 0.2                            | 5.4              |
| (NIKKEI INDEX)        | 20,770.3 | 0.7                            | 0.2              |
| (TSE COMPOSITE)       | 4205.1   | 0.0                            | 4.7              |

| FUNDAMENTALS                 | Latest | Week ago | Year ago |
|------------------------------|--------|----------|----------|
| 90-DAY TREASURY BILL YIELD   | 4.43%  | 4.41%    | 3.09%    |
| 30-YEAR TREASURY BOND YIELD  | 7.57%  | 7.38%    | 6.44%    |
| S&P 500 DIVIDEND YIELD       | 2.77%  | 2.73%    | 2.79%    |
| S&P 500 PRICE/EARNINGS RATIO | 18.7   | 18.8     | 22.8     |

| TECHNICAL INDICATORS                      | Latest | Week ago | Reading  |
|-------------------------------------------|--------|----------|----------|
| S&P 500 200-day moving average            | 460.4  | 460.5    | Negative |
| Stocks above 200-day moving average       | 36.0%  | 37.0%    | Positive |
| Speculative sentiment: Put/call ratio     | 0.41   | 0.36     | Positive |
| Insider sentiment: Vickers sell/buy ratio | 0.97   | 0.98     | Positive |

## INDUSTRY GROUPS

| MONTH LEADERS    | % change |          | Strongest stock in group | % change |          | Price  |
|------------------|----------|----------|--------------------------|----------|----------|--------|
|                  | 1-month  | 12-month |                          | 1-month  | 12-month |        |
| FACTURED HOUSING | 15.5     | 5.3      | FLEETWOOD ENTERPRISES    | 18.8     | 6.7      | 23 3/4 |
| CONTAINERS       | 13.0     | 38.0     | STONE CONTAINER          | 25.4     | 134.9    | 18 1/2 |
| UTER SYSTEMS     | 12.0     | 33.2     | TANDEM COMPUTERS         | 24.5     | 46.3     | 14 5/8 |
| WHOLESALE        | 10.4     | 2.2      | McKESSON                 | 34.0     | 103.4    | 98 1/8 |
|                  | 9.1      | 20.8     | REEBOK INTERNATIONAL     | 20.3     | 41.3     | 36 3/8 |

| MONTH LAGGARDS             | % change |          | Weakest stock in group | % change |          | Price  |
|----------------------------|----------|----------|------------------------|----------|----------|--------|
|                            | 1-month  | 12-month |                        | 1-month  | 12-month |        |
| URANTS                     | -9.7     | 0.1      | McDONALD'S             | -10.6    | 2.9      | 26 1/2 |
| F-DUTY TRUCKS              | -6.0     | -8.4     | CUMMINS ENGINE         | -13.7    | -7.2     | 37     |
| ELL EQUIPMENT AND SERVICES | -5.6     | -10.4    | BAKER HUGHES           | -8.2     | -24.6    | 19 1/2 |
| XPLOATION AND PRODUCTION   | -4.7     | -18.5    | BURLINGTON RESOURCES   | -7.6     | -22.5    | 38     |
| ISHINGS AND APPLIANCES     | -4.0     | -4.2     | WHIRPOOL               | -7.4     | -22.9    | 48 3/4 |

## MUTUAL FUNDS

| TOP PERFORMERS                        | % total return | LAGGARDS                   | % Four-week total return |
|---------------------------------------|----------------|----------------------------|--------------------------|
| WATKINSON STRATEGIC INVESTMENTS       | 13.1           | MONITREND GOLD             | -8.9                     |
| GAM STANLEY INSTL. ASIAN EQUITY       | 12.4           | GAM GLOBAL                 | -4.5                     |
| GUARD INTL. EQUITY INDEX EMERG. MKTS. | 12.0           | DFA JAPANESE SMALL COMPANY | -4.4                     |

| TOP PERFORMERS                    | % total return | LAGGARDS                               | % 52-week total return |
|-----------------------------------|----------------|----------------------------------------|------------------------|
| DER LATIN AMERICA                 | 55.9           | MONITREND GOLD                         | -44.5                  |
| ICO EMERGING MARKETS INSTL.       | 52.0           | KEYSTONE AMERICA HARTWELL EMERG. GR. B | -29.0                  |
| GAM STANLEY INSTL. EMERG. MARKETS | 49.5           | STEADMAN OCEANOGRAPHIC TECHNOLOGY      | -24.6                  |



## RELATIVE PORTFOLIOS

| Amounts as of the present date and one year ago | Foreign stocks | U.S. stocks | Money market fund | Gold     | Treasury bonds |
|-------------------------------------------------|----------------|-------------|-------------------|----------|----------------|
| Relative portfolio                              | \$11,899       | \$10,477    | \$10,202          | \$10,070 | \$9,563        |
| Relative portfolio                              | -0.65%         | -0.57%      | +0.05%            | -0.36%   | -1.89%         |

On this page are as of market close Wednesday, Aug. 10, 1994, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close.

Aug. 9. Mutual fund returns are as of Aug. 5. Relative portfolios are valued as of Aug. 9. A more detailed explanation of this page is available on request. r=revised



## NO TURNING BACK IN MEXICO

**B**eneath the murder and mayhem that have punctuated the Mexican election campaign over the past year, an amazing shift in the body politic has quietly taken place. The left, which nearly took power in 1988, has imploded, and some 70% to 80% of the electorate now support the free-market policies of out-going President Carlos Salinas de Gortari (page 40).

Whether they prefer the governing Institutional Revolutionary Party (PRI) or the up-and-coming National Action Party (PAN), the vast majority of Mexicans want to continue the policies of economic pluralization: privatizing the state sector, liberalizing foreign investment, and boosting market competitiveness. If anything, the shift of the middle-class opposition vote away from the left to the PAN, which is to the right of the PRI, highlights one critical fact about the Aug. 21 election in Mexico: No matter who wins, there will be no rejection of NAFTA and no return to the nationalist-populist economic policies of the past.

This is good news for the U.S. and Canada, Mexico's NAFTA partners, but it means even more for Peru, Argentina, and Venezuela. These countries have also switched to free-market economies but worry that recent peasant and labor unrest might push the region left.

Pre-election polls in Mexico show that these fears are misplaced. But changes are coming. First, the *pacto*, the wage agreement among unions, business, and government, will get

richer. Salinas brought inflation down to 7% by keeping hikes below the rise in inflation. Expect wages to at least pace in the future.

Second, the "dirty float" of the peso against the dollar will get dirtier. With Mexican companies taking out dollar loans and the country in need of capital inflow from the U.S., a devaluation is unlikely. But over time, the peso will probably decline a bit faster against the dollar.

Third, the tight fiscal discipline that generated a budget surplus will get looser. Spending on agriculture and education is essential to bringing the peasants and the young into the modern economy.

Will this add up to a new burst of inflation? Probably. Selling off state assets can finance added social spending.

The election in Mexico marks the second stage of the decentralization of Mexican society. The decentralization of its command economy is now being followed by a similar shift in its one-party political system. Mexico's challenge is to "securitize" its judiciary and police, removing political corruption from both institutions. Devolving power and resources to the states within Mexico would help as well. A new federalism might provide the kind of political flexibility that is needed to realize the polity.

Liberalization of the Mexican economy is being followed by a more liberal society. There is another term for that: call it democracy.

## VIGILANCE FROM THE FED—NOT ZEAL

**T**wo disparate economic events are about to make a big impact on our lives. Pricing power suddenly returned to at least one big segment of the American economy as steel companies successfully pushed through a hefty 10% hike to Detroit. Across the Pacific, interest rates began rising in Tokyo, signaling that Japan, like the U.S. and Europe, is once again expanding.

Remember synchronous growth? It's back. But it's bigger this time with the integration into the international market economy of former communist and statist countries. China, Eastern Europe, Latin America, Southeast Asia, the Middle East, and even South Africa are all growing, triggering talk of a global capital shortage in the Washington-Wall Street circuit.

Both events are bound to make the life of Federal Reserve Chairman Alan Greenspan a lot harder in the months to come. Inflation hawks at the Fed will probably see them as further proof that higher interest rates are needed. They believe that the economy is growing at a faster clip than most private economists hold. Odds are, when the Fed meets on Aug. 16, it will raise rates yet again. If the Fed is right about the economy, the hike won't be enough to derail the expansion.

But the stakes keep rising for any further tightening of the monetary faucet. The recovery, now in its third year, is show-

ing signs of wear and tear. Higher interest rates have slanted new home sales. New car sales are off their highs. Retail sales have softened, and productivity gains may have peaked in this business cycle.

Inflation, the clearest sign of an overheated economy, has yet to spread its poison. Despite big payroll employment gains, unit labor costs remain extremely low. And while prices for industrial and agricultural commodities have gone up, manufacturers are afraid to pass the hikes along to customers. For now, growth is not generating inflation.

The Fed's game to date has been to get ahead of inflationary pressures early. That strategy meant moving from a accommodative to a more neutral monetary stance. Now the game may change to engineering a "soft landing" as the U.S. expansion matures. Further rate hikes will bite hard, especially if fiscal policy remains tight.

It behooves the Fed to be vigilant as the world economy shifts into higher gear, and as pricing power makes a more frequent show at home. But stakes are growing for any miscalculation in monetary policy. The U.S. growth rate already appears to be downshifting to 2.5% for the second half of the year from 3.5% in the first six months. Any mistake in monetary policy after Aug. 16 could be very costly.

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GIANT KEEPS AMERICA'S  
BELLS RINGING.**

**ECONOMY** CALIFORNIA'S  
SHAKY RECOVERY

**POPULATION** NEW IDEAS TO  
CURB GROWTH

ESS WEEK

August 29

# BusinessWeek



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# THE TRADER

in Meriwether and his dream team of high-tech traders made  
ions for Salomon Bros. How big will they score on their own?

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June 5, 1984: The sky as seen in Luffturm 1 from 1143 - Hongkong in Frankfurt.





J.M.'S CULT: HARVARD PROFS, A FORMER FED VICE-CHAIRMAN, A POTENTIAL NOBELIST. WHAT UNITES THEM IS A DEVOTION TO JOHN MERIWETHER

## Cover Story

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When John Meriwether headed Salomon's arb department, he put together a brain trust that made billions for the firm by combining arcane math, finance theory, and good old market smarts. Now, working out of a laid-back office in a leafy Connecticut suburb, the group aims to replicate that success at Long Term Capital—and in the process prove that the something-for-everyone, high-overhead Wall Street firm is an anachronism

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With an economy this robust, inflationary jitters don't seem unwarranted

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It's enlisting a slew of startups in its fight against Sega

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The Federal Reserve strikes while the iron is cooling



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## WHAT NEXT? AK-47 WEED-WHACKERS?

**P**ainfully, Russia's arms makers are learning how to convert their products and technologies to civilian uses. A research institute that provided satellite reconnaissance to the military now sells weather data to the government and news organizations.

### FAREWELL TO ARMS

| Russian Company | Military Product | Consumer Product |
|-----------------|------------------|------------------|
| AVIATICA        | Jet fighters     | Sports planes    |
| ELECTRON        | Antennas         | Microwave ovens  |
| URALAZ          | Missile carriers | Heavy trucks     |

DATA: BUSINESS WEEK

Many heavy defense manufacturers are showing versatility at entering the world of commerce. UralAz, a factory in the Ural Mountains, has converted its huge all-terrain trucks that used to tote mobile SS-9 nukes into carriers of pipelines and timber. Avia-

tica, which makes Sukhoi-27 jet fighters outside Moscow, also now builds lightweight sports planes. And on Moscow's central Tverskaya Street, vendors sell ice cream from metal kiosks that once were missile nose cones. Electron, a former antenna maker in Chelyabinsk, is now making microwave ovens in partnership with a nearby "secret" missile factory.

But there have been major disappointments, notably quality problems among those seeking to turn sophisticated electronics gear into relatively simple consumer gadgets. The Tantal defense plant in Saratov shut down its video recorder assembly line in June, unable to compete

with spiffier Asian models. The Kirov Factory in St. Petersburg, where T-80 tanks were made, has designed an energy-efficient jeep for consumers. But it has suffered from imports of Chevy Blazers and Jeep Grand Cherokees.

Patricia Kranz

### NETWORK NEWS

## DO VIOLENT 'TOONS LEAD TO VIOLENT TEENS?

**W**hich is too violent for kids to watch on the tube: shoot-'em-up cop shows or Saturday morning cartoons? Maybe both, according to a new monitor of violent programming.

The UCLA Center for Com-

rector, says emphasis will be placed on children's programs, including cartoons. "There is definitely a concern," says Cole, "about at what age children can distinguish fantasy from reality." His \$500,000 study, funded by the broadcasters, is their grudging response to Capitol Hill criticism of TV violence—and a bid to stave off federal regulation. They say they'll use the report in program planning.

Some broadcasters, though, fear that Cole, who has no kids himself, may go too far. Says Martin Franks, a CBS executive vice-president: "I don't think that watching *Road Runner* is going to turn a child into a psychopath." There's no established link, the CBS executive says, between video violence and the real thing.

Charlie Green



BEOP BEOP Here comes a watchdog

munication Policy, embarking on a study of the 1994-95 and 1995-96 seasons of the Big Three networks and Fox, will evaluate all programming. But Jeffrey Cole, the center's di-

### DRAWN AND QUARTERED



### ECO-TOURISM

## DON'T DRINK THE WATER, WHATEVER YOU DO

**B**ored with the beach and the lake? Try toxic-waste tourism. The Environmental Protection Agency is setting up a \$3,000 visitors' center at a Superfund site in Colorado. The soon-to-open center will display dozens of photographs of the mess and drawings explaining the \$120 million, seven-year cleanup, which began in 1992. Already this summer, hundreds of sightseers have visited the site's scarred earth and cyanide-laced streams.

The site, at a ghost town in the Rockies called Summitville (elevation: 11,500 feet), is a

defunct gold-mining operation dating from the 1870s. In the EPA says the real problems began when Galactic sources, a Vancouver gold company, ran a cyanide-leaching operation from 1986 to 1992. That's where cyanide solution is poured through



YECH! Rocky Mountain high toxicity

to extract gold. Galactic, which went into Canadian liquidation proceedings in late 1992, couldn't be reached for comment. Sandra Atchison

### THE BIG PICTURE

**HELP!** Notice your newspaper is a bit thicker these days? That's because help-wanted advertising is up to heights not seen since 1990. Just another indicator that the economy continues to improve.



### FOOTNOTES

Total number of firearms manufactured in the U.S., 1984: **3.88 million**. In 1992: **4.04 million**. In 1993: **5.19 million**



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# RETURN ON QUALITY: BEYOND THE BUZZWORD

**Q**uality: How to make it pay" (Cover Story, Aug. 8) hit the nail right on its golden head.

The concept of a "bottom-line discipline to quality" is at the core of any meaningful quality-management strategy. When planning quality efforts, organizations must continually ask: Will this benefit our customers? Will this benefit our bottom line?

Lest one think that "return on quality" is a new concept, look at J. M. Juran's *Managerial Breakthrough* (McGraw-Hill, 1964). Juran pointed out the critical relationship between continuous quality improvement (breakthrough) and return on investment (the most important measure of financial performance). Everything old is new again.

G. Howland Blackiston  
 President  
 Juran Institute  
 Wilton, Conn.



**T**he misconceptions in your article are the same misconceptions that have trapped many companies trying to implement total quality management. You would have done the public a service if you instead probed why Americans: ■ seem unable to deal with a paradigm that shifts our focus to customers as the key to success, with financial results as the outcome;

■ cannot seem to grasp that running around doing lots of stuff is not TQM; ■ cannot implement all of a system but instead pick and choose the things that feel comfortable, then are stunned and angry when the results don't pan out.

Managers wouldn't try to drive a car with no tires or assemble a child's toy without all of its parts. Yet they routinely operate this way, implementing systems with incomplete understanding, leaving out important components.

Peggy Darragh-Jeromos  
 Mansfield, Ohio

**Y**ou seem to misrepresent the philosophy of W. Edwards Deming with whom I worked until his death. Deming would not have been proud of any company that lost sight of the reason to please customers nor of any company that thought profit was less important than quality.

Total quality management is a thoroughly pragmatic (albeit extremely demanding) way to make increased profits by not only satisfying but also delighting customers with better products and services for less cost.

Return on quality is a fine idea, which Deming would have approved, assuming that you can make the measurement, which I doubt. Deming would wonder that if we focus more on cost than on quality, we will be back to the days of the cost-effectiveness analysis, which gave us the Ford Pinto. Quality gave us the Ford Taurus. You pick; Ford already has.

Lloyd Dobson  
 Garner, N.C.

**Y**ou took six full pages of one of the most important business magazines in the world to tell readers that: (a) a religious-like devotion to the quality movement and all its many artifacts, trappings, rites, and rituals is no guarantee of business success; and (b) I ought to pay attention to the financial returns from a quality program.

Just how stupid do you think we are?  
 Frederick W. Nickerson  
 East Windsor, N.J.

**Y**our article puts the cart before the horse. How can you design an effective process and calculate the return on quality initiatives without knowing what your customers want?

Profitable companies use customer intelligence as the cornerstone of their quality programs to deliver more of the right values at the right time. A recently published study concludes that "strong market leaders" deliver 15% more sales

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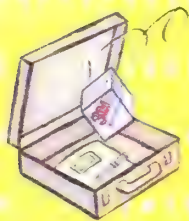
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## Readers Report

faction than their competitors, and that increasing customer satisfaction by 3% adds 1% to ROI.

Connie Freid  
Yonkers, N.Y.

**I**t is more difficult than you think to link "buzzword" programs (e.g. TQM, reengineering) to customer requirements. Managers and workers get all fired up to fix what they perceive to be broken and seldom go to the customer for input. It is another hurdle to fold these requirements into a tactical plan.

It is ironic that the Commentary on page 27 ("DEC's board has woken up. Now comes the hard part") concerns a company that should read the [quality] article very closely. Simply rolling out a program is not enough.

James H. Dooley  
Milford, Mass.

**W**e don't know the source of a statement on Johnson & Johnson in your article referencing our experience with benchmarking. To the contrary, our benchmarking efforts have had a significantly favorable return-on-quality investment and have led to better products and services for our customers.

Jeffrey M. Nugent  
Vice-President  
Johnson & Johnson  
New Brunswick, N.J.

### JIM WALTER HOMES LITIGANTS HAVE NO FOUNDATION

**Y**our article on our legal dispute in Texas, "Jim Walter homeowners raise the roof" (The Corporation, Aug. 1), was terribly one-sided, implying only a token response on our part rather than the hours spent with your reporter.

It should come as no surprise that attorney Hector Gonzalez and his clients will allege that any and all problems with their homes are the result of poor construction: They are not making their mortgage payments and under normal circumstances would face certain foreclosure. The article makes only passing reference to the very significant issues of unsightliness and deterioration resulting from years of homeowner neglect and poor maintenance. Moreover, it never addresses the fact that Jim Walter Homes builds to stages of interior finishing selected by our customers, and therefore the condition of these homes often reflects work Gonzalez' clients performed themselves.

The Vidals allege that our company did not respond to complaints about a

### CORRECTIONS & CLARIFICATION

In the Personal Business article "Missing the most of upbeat news" (A 15), we misprinted the phone number for I/B/E/S International. The correct number is 900 225-2622.

problem with their foundation. However, according to their own sworn court statement, the Vidals didn't complain of a foundation problem until they had jumped on Gonzalez' bandwagon some six years after their home was completed.

We have made clear that we are gladly repair any problems that an independent inspector determines were legitimately the result of our construction, but Gonzalez prevents us from doing so. We are confident that when the facts of the case are fully presented in a proper forum, we will prevail and the financial impact will be negligible.

Any reader who has built a home knows that problems often arise during or even after construction and occasionally escalate to litigation. Such disputes currently represent less than two-tenths of 1% of our 84,000 active mortgage accounts, excluding the unique situation in south Texas, and nearly half of these represent counterclaims predictably filed by customers trying to prevent or delay foreclosure.

The fact that a company our size sometimes faces litigation is, regrettably, a function of doing business today, but it is not the standard by which Jim Walter Homes should reasonably be judged. Measure us, instead, by more than 300,000 satisfied families to whom we have provided affordable homeownership for over 47 years.

David L. Townsend  
Vice-President  
Human Resources/Public Relations  
Walter Industries Corporation  
Tampa, Fla.

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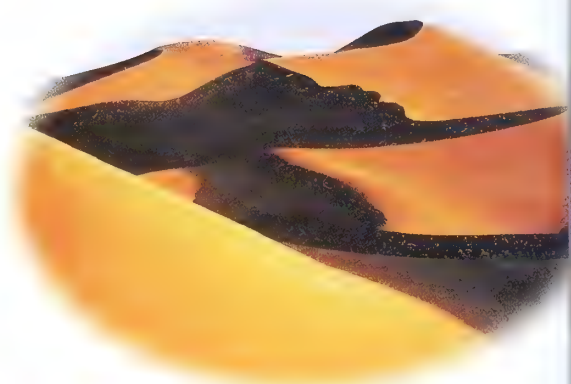
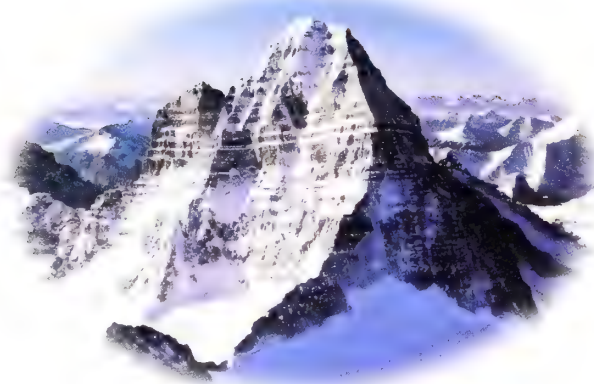
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# IT TIME TO SINK FLOATING RATES?

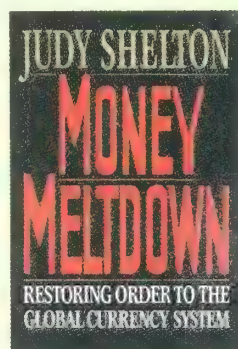
Some authors have an uncanny knack for spotting news before it hits the front page. Judy Shelton, senior research fellow at Stanford University's Hoover Institution, made her mark with her 1989 book, *The Coming of the Crash*, which predicted the economic and political calamities that befall the Soviet Union a year later. In her display of prescience, Shelton recently delivered *Money Meltdown: Restoring Order to the Global Currency System*—just as the U.S. dollar was plummeting to a historic low against the Japanese yen and stumbling badly against the German mark. The greenback's collapse made headlines worldwide, breathing new life into the old debate about whether the current system of floating exchange rates can provide the solution needed for an increasingly complex global economy.

The first three chapters of *Money Meltdown* provide an accessible and comprehensive study (although a conservative lens) of the global currency markets, back to the creation of the Bretton Woods monetary system in 1944. In the way, Shelton provides plenty of ammunition for critics of the present system. The dollar's steady decline, she argues, is just the latest evidence of a flawed system that creates a drag on the world economy. The floating-rate system exerts little discipline on governments that engage in reckless deficit spending, she contends, and the result—volatility creates disincentives for corporations to invest abroad. Meanwhile, central bankers play “high-stakes poker” with speculators, frittering away billions of dollars in mostly vain efforts to influence the value of their currencies. The real producers and consumers of the world can only be discouraged and misled by a game that is biased toward the shrewd practitioners of monetary artifice,” she writes.

In a subsequent valuable chapter, she explores various reforms experts have proposed, such as private currencies and “trading bands” supported by multigovernment intervention. Unfortunately, Shelton's own prescription is one of the least attractive: the re-imposition of an international gold standard. Her reasoning: A return to gold-backed currencies would force governments to display more fiscal responsibility or face the prospect of investors demanding gold for their paper currency. This would stabilize currency-exchange rates and presumably lower the cost of capital, stimulating

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**T**he dollar's decline, Shelton argues, is evidence of a flawed system that is a drag on the world economy



late corporate investment overseas, and launch a new era of global growth.

Unfortunately, by the end of the book, the reader is left with the suspicion that Shelton isn't driven simply to reduce rate volatility but to rein in “self-serving governments.” When Shelton argues that the issuance of paper notes by a “redistributionist government” can lead to “class warfare,” readers must believe she is most worried about the plight of the creditor class.

Shelton's call for a new gold standard today seems outdated. She produces little empirical evidence that the current system truly impedes global growth. She simply issues apocalyptic warnings that floating exchange rates will spark future catastrophes such as the hyperinflation that sparked fascism and World War II. Can we, she asks, “in this nuclear age...accept the inevitability of a

scenario that has led to such misery and destruction in the past?” Could spats over exchange rates, she adds, result “in the possibility of military conflict?”

There are practical problems with trying to impose a new gold standard, which Shelton dismisses too quickly: The world gold supply isn't growing fast enough to support a vibrant global economy, and reliance on a gold standard subjects nations to the vagaries of a miners' strike in Russia or South Africa. New production adds only about 2% annually to the existing supply of gold. Since that's below the projected growth rate of the global economy in coming decades, a gold standard could have a deflationary impact—although, truth be told, that might be fine with creditors. And what happens if domestic economic troubles prompt a nation to dump its gold reserves on the world market? Shelton finds such potentially destabilizing scenarios preferable “to the fiscal offenses that are carried out by profligate politicians in the absence of the discipline inherent in a gold standard.”

While it is difficult to defend the deficit spending of many nations in recent years, the imposition of a gold standard would impede the ability of governments to act in the best interests of their citizens by, for example, providing fiscal stimulus during recessions. As economist Milton Friedman has noted, governments forced to constrain their domestic policies to meet international obligations

are akin to the circus clown who breaks his back lugging a piano over to his stool.

In truth, Shelton and other critics may overstate the consequences of recent exchange-rate volatility. The dollar's tumble against the yen is largely the result of the shortsighted trade policies of Japan, which refuses to shrink its huge world surplus. Actually, when calculated on a trade-weighted basis, the greenback is up for the year against other currencies. Despite similar gyrations in the stock and bond markets, corporations somehow manage to raise capital through the sale of debt and equity. Would Shelton, the free marketeer, advocate tight restraints on those markets as well?

BY DEAN FOUST

Foust covers international finance from Washington.



## "Mosam" has some great stories about the Chesapeake Bay.

If you want to know how to build a Deadrise workboat, or how the crabs are running, or even about the muskrat population 40 years ago, all you have to do is spend a few minutes with Elmer "Mosam" Ford.

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The U.S. Environmental Protection Agency also has some things to say about the Bay. And while these stories are more serious than "Mosam's," they need to be told, too.

The stories use computer models and simulations to predict the effects of human interaction with the Bay. They help EPA decision-makers determine how to protect this national treasure from chemical and toxic pollutants. The same techniques are also being applied to safeguard other precious national resources.

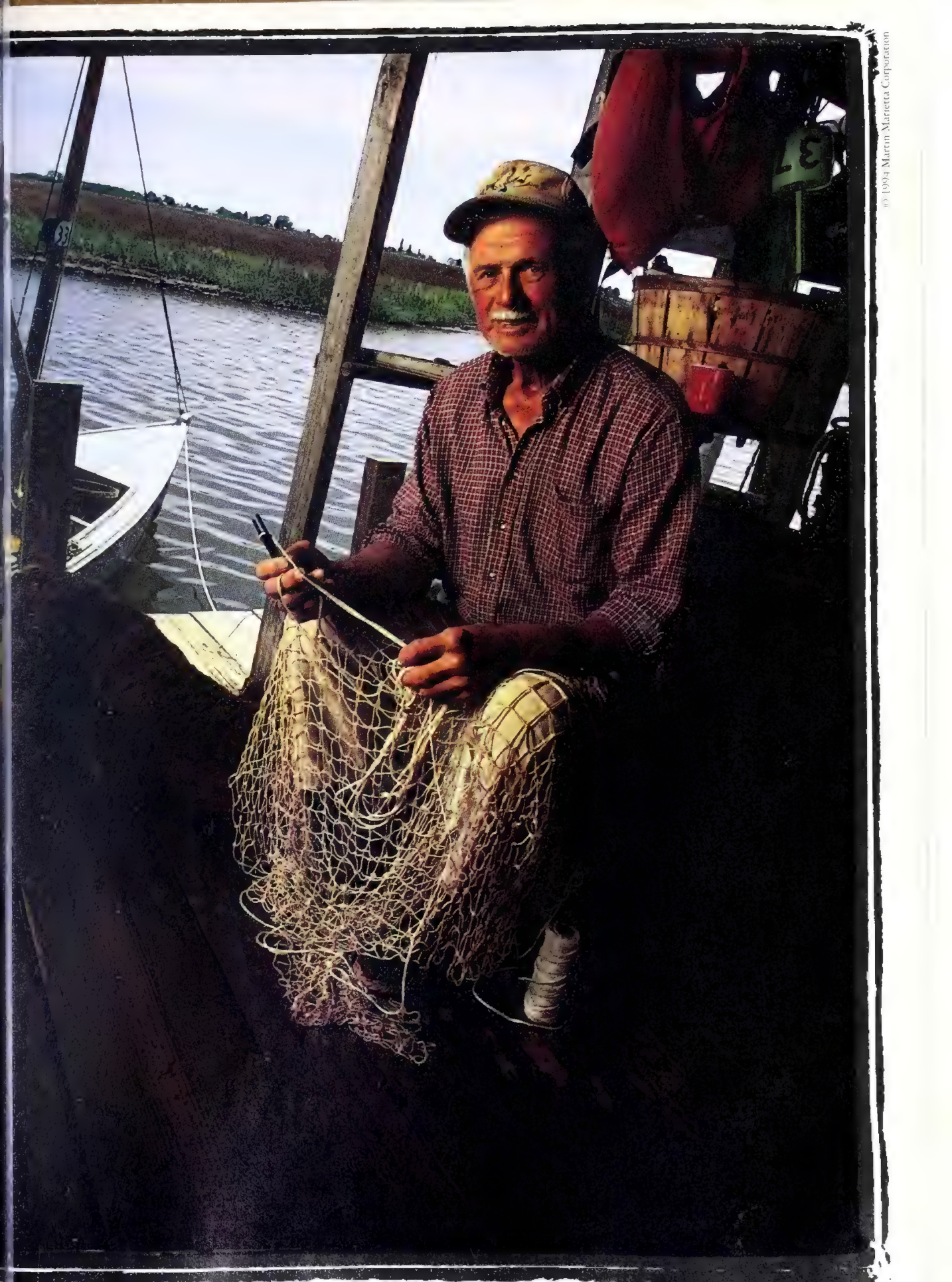
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## IN SEARCH OF THE PAPERLESS CONTRACT

**H**ow efficiently does your business use technology to buy and sell products and services? Odds are the process is an archaic mix of telephone and fax communications, multipart purchase orders, paper invoices, and checks.

Many large companies are replacing paper with electronic forms to simplify business within the enterprise. Some large corporations have managed to extend this "electronic document interchange" (EDI) to cover dealings with big vendors and customers. But the growth of EDI beyond cor-

Net. But the experiences of the four-month-old experiment suggest that this goal may prove elusive.

Two major hurdles must be overcome to make spontaneous electronic business a reality. Proposals, bids, price lists, and purchase orders contain sensitive information, so companies need assurance that data transfers are secure. Plus, every company in the U.S. uses different forms and procedures—and each wants to do it its way.

CommerceNet hopes to make transactions work over the Internet so easily that a

actual commerce taking place on CommerceNet is sales of software and hardware by the on-line Internet Shopping Network. Members of the consortium have devoted their efforts to developing a secure version of Mosaic that will keep transactions safe from prying eyes and provide for the digital equivalent of legally binding signatures on documents. A preliminary version of the program is being circulated among participants, and planners hope that the first transactions will be flying across the wires sometime this fall.

But daunting problems remain. The program has to be nimble enough to deal with dozens of different approaches to business. A major difficulty, says one person close to the effort, is that smaller companies are willing to adapt their procedures, but lack the technical expertise. Big corporations are technically savvy but bureaucratically inflexible.

**PASSING NOTES.** The U.S. export controls that place severe limits on the international use of the cryptographic technology needed to secure the system may present a greater impediment. "We need a solution that works for us internationally," says Sandy Whitson, EDI business manager for Hewlett-Packard Co., another CommerceNet stalwart. "Otherwise, this won't go much of anywhere."

CommerceNet isn't the only open-EDI push under way. AT&T is working with Lotus Development Corp. and Novell to develop services that will allow companies to more easily link their Notes and NetWare networks more easily, creating another path for open EDI.

In many offices, a typewriter is kept around just to fill out the forms—often those that have to go outside the company—that can't be handled easily by computer. That typewriter's days may be numbered, but you'll probably have to keep it around for a while. S.W.

## BULLETIN BOARD

### COMMUNICATIONS

#### LOGGING IN FROM ABROAD

Communicating with the office by modem can be a pain, and overseas travel adds new layers of complexity. Read Steve Marsden of North Vancouver, B.C., wonders how to cope with a system that requires an operator-assisted



call to reach home base.

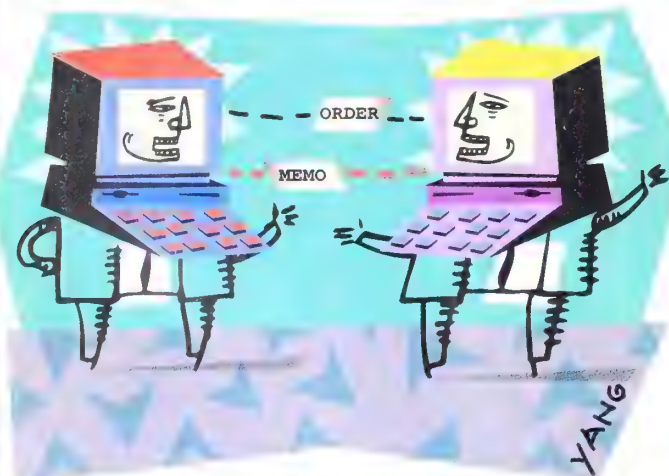
Two things may help. One is a simple "Y" connector, available wherever telephone accessories are sold, that lets you plug your laptop and a phone into a single outlet. The second is communications software, such as Digital Communications Associates' CrossTalk or Lotus Development's cc:Mail Mobile, that allows the modem to pick up the line after you have placed a call manually.

This won't always work. Software can fail to connect if your timing isn't just right. Modems built to North American standards can be flaky on foreign phone systems—and their use may even violate local regulations.

### SOFTWARE

#### ON-LINE ACCESS FOR OS/2

Users of IBM's OS/2 operating system often feel like orphans because so little software has been written for them. Now, CompuServe has written a new version of its on-line access software just for OS/2. The program, currently in its final tests, will be bundled with an upcoming release of OS/2 and will also be available for download from CompuServe.



porate walls has been slow because each business-to-business relationship has to be custom-engineered.

**SPONTANEITY.** Now, a group of about 50 northern California companies, banded together into a consortium called CommerceNet, is trying to change that. "We're headed toward a world where a corporation can spontaneously do electronic business with entities they haven't dealt with before," says Robert Winn, vice-president for global-payment services at Bank of America, which plans to provide financial services on Commerce-

Net. But the experiences of the four-month-old experiment suggest that this goal may prove elusive.

Two major hurdles must be overcome to make spontaneous electronic business a reality. Proposals, bids, price lists, and purchase orders contain sensitive information, so companies need assurance that data transfers are secure. Plus, every company in the U.S. uses different forms and procedures—and each wants to do it its way.

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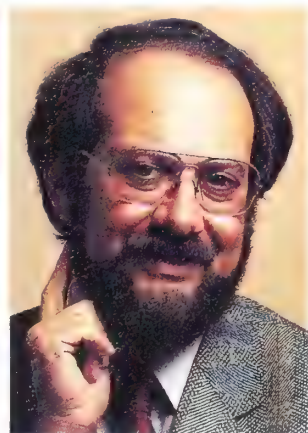
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## WHERE HAVE ALL THE GOOD JOBS GONE?

BY ROBERT KUTTNER



The economy is generating jobs, sure, but they're mainly in low-wage service industries. Some economists say technology is the culprit. Others point to global trade, deregulation, and weaker unions

**A**s Labor Day approaches, the economy is generating jobs—4 million since President Clinton was elected—but too few good ones. If anything, the trends of the 1980s have intensified: astronomical earnings gains for the economy's superstars. In the middle: relentless downsizing, with new pressures on once-secure professionals as well as depletion of solid blue-collar jobs. At the bottom: growing part-time and temporary hires, low-wage jobs in services, especially retailing, and dismal starting wages.

Economists disagree about the cause and cure of these trends. For Harvard economist Robert Z. Lawrence and Stanford University's Paul R. Krugman, writing in the April *Scientific American*, the loss of good jobs is mainly a story of "technological shocks"—rising productivity in manufacturing replacing workers with machines.

But unlike the earlier shift from farm to factory, the total supply of good jobs has not increased because the service-sector jobs that replaced factory jobs often have lower productivity rates. In the Lawrence-Krugman analysis, trade is mostly irrelevant, as is the structure of industry.

This view is challenged in the *Brookings Papers on Economic Activity* by Harvard economists Jeffrey D. Sachs and Howard J. Shatz, who acknowledge the role of trade in eroding high-paying manufacturing jobs and wages.

Other economists emphasize structural changes in the economy. Lawrence Mishel and Jared Bernstein of the Economic Policy Institute, David Howell of the New School for Social Research, and Edward Leamer of the University of California at Los Angeles, believe that a combination of new global competition, deregulation of the domestic economy, lower minimum wages, and weaker unions have altered the historic balance of bargaining power between management and labor. The effect of trade is not just on the jobs it displaces directly, as Lawrence and Krugman contend, but on the entire wage structure.

**JANITORS AND CLERKS.** If this argument is correct, simply raising the skill level of the American worker won't solve the problem of bad jobs and bad wages. "Skill levels are up, but compensation is down," Mishel says. "Productivity is rising, but the median wage is falling."

Mishel and Howell document evidence of a decline of what economists call "return-to-skills." Workers, they argue, have become better educated and trained but are not being rewarded for it as reliably as in the past. Mishel reports that "since 1989, college-educated workers are no longer increasing their advantage

over other workers." Further, say Mishel and Howell, there is little evidence that industry adding technology or increasing demands for skills at rates faster than in the past.

So the question remains: Is the problem of good jobs mainly one of human capital—a deficiency of skills that workers offer employers? Or is it on the demand side, with "bad" jobs and wages being offered by employers? Or is it also structural, with institutional changes in the economy permitting employers to capture the benefits of freer global markets without having to share them with employees?

In the human-capital view, there is a mismatch between workers' low skills and the advanced skills demanded by the high-tech economy. But according to the Bureau of Labor Statistics, the occupational categories generating big job numbers are the same depressions of the past decade—fast-food worker, clerk, retail sales clerk. Nor does supply create its own demand. If we suddenly doubled the number of engineers, we wouldn't have more engineering jobs, only a glut of engineers.

**MIDLIFE CRISES.** In his most recent paper, Lawrence agrees that economists who stress technology must also look harder at "labor-management relations and work organization." A generation ago, employees were sometimes overpaid relative to their "worth," thanks to unions, higher minimum wages, and corporate norms about rewarding loyal service. But the 1990s are weak on loyalty or sentimentality. Middle managers speak bitterly of the "50 rule." If you are over 50 years of age and make more than \$50,000, your job is at risk.

Today's labor market is more like a textbook free market. That implies more efficient deployment of resources and higher growth. But paradoxically, in the bad old days of "rigid" labor markets, rates of productivity and overall economic growth increased at nearly twice the rate of the past two decades. Those "rigidities" also yielded social contracts, job security, and a living wage—which translated into reliable purchasing power, hence reliable capital investment, and higher growth.

So what should policymakers do? If you believe the problem is mainly one of skills, you need a heroic effort to upgrade education and training. If trade and union-bashing have eroded employee bargaining power, the answer is a new workplace contract, more symmetric trade rules, and labor-law reform. And if slow growth has caused productivity gains to replace jobs rather than raise living standards, the Federal Reserve should reconsider its aversion to growth. My own view is that we need progress on all three fronts.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ-FAIRE



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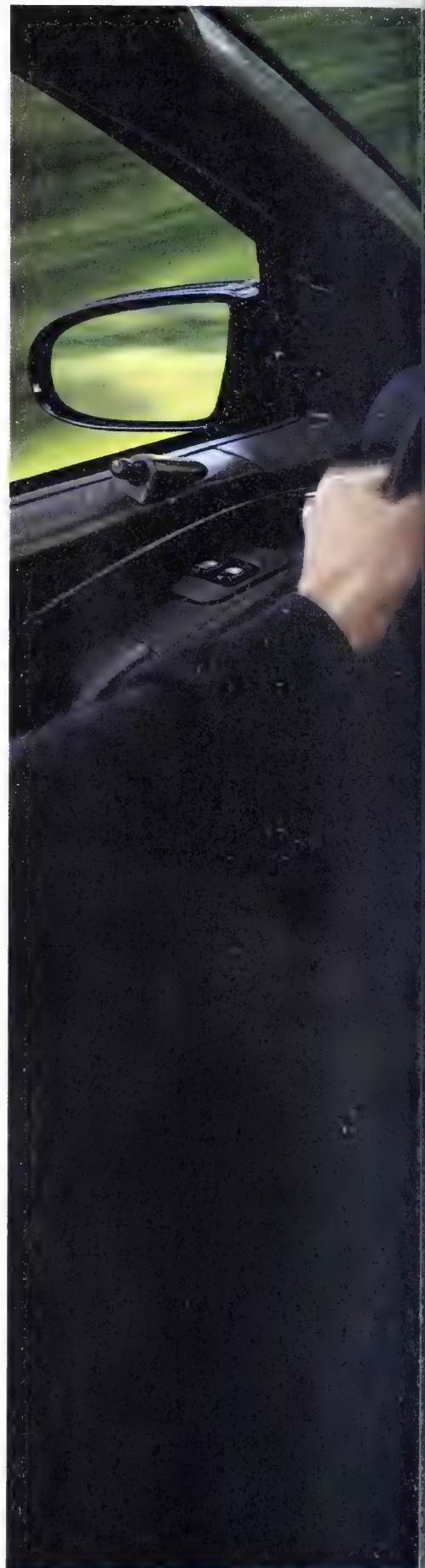


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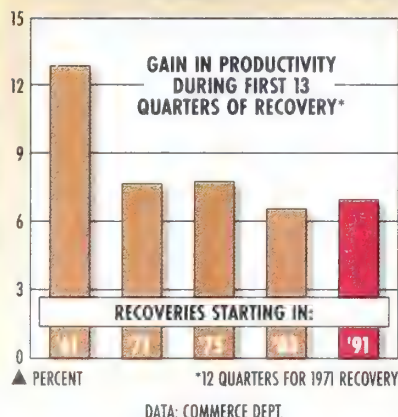
BY GENE KORETZ

## THE 'REVOLUTION' IN U.S. PRODUCTIVITY MAY BE OVERSTATED

It's a popular thesis—the idea that long-term U.S. productivity growth is finally on a roll and will cruise through the 1990s at the 2% to 3% annual clip it hit in the 1950s and 1960s. But economist David A. Wyss of DRI/McGraw-Hill sees “no reason to rejoice over a revolution in productivity.”

Wyss agrees that the record pace of real equipment investment in the current upswing, along with continued downsizing and work restructuring, has helped foster productivity gains. He also concedes that rising output per hour has accounted for far more of the economy's growth than in similar expansions.

### THE PRODUCTIVITY REBOUND: NOTHING TO SHOUT ABOUT



Wyss notes, however, that productivity growth itself in the current recovery appears close to normal (chart). And though the government says real business equipment spending has soared at a near-record 44.3% clip since early 1991, it reports that actual outlays in current dollars are up only 34%—the lowest amount for any recovery since 1960.

The big reason for this, of course, is that quality improvements attributed to computers by the government's numbers grinders have caused their prices to fall sharply. That means less cash buys more real goods, pushing up equipment's contribution to economic growth.

Wyss questions such quality improvements, which are based on computers' raw processing powers. As the government measures it, he says “my IBM ThinkPad is ‘bigger’ than the \$3 million IBM 7094 mainframe on which I first

learned to program.” But that 7094, he notes, was used exclusively to crunch numbers and ran 24 hours a day.

By contrast, Wyss's PC is usually zipped up in a travel case and is most often crunching words, not numbers, when in use. “To a large degree,” he says, “my PC has replaced the \$129 typewriter I used in college. Valuing it as the equivalent of the mainframe vastly overstates its impact on productivity.”

The picture is even less inspiring if you factor in the shorter lives of computers. “Because equipment is being scrapped a lot faster, you need more investment just to keep the capital stock steady,” says Wyss. “Net investment as a share of gross domestic product has dropped sharply since the 1960s.”

The upshot, say Wyss, is that productivity growth is likely to slow as the expansion matures, as it has in prior cycles. And while he expects it to average about 1.6% in the 1990s, compared with 1.1% in the 1980s, that's still far below its blazing pace in the 1960s.

## THE POPULATION PLUNGE THAT'S WRACKING EASTERN GERMANY

Almost all former Soviet bloc nations have experienced rising mortality rates since the fall of communism. But as demographer Nicholas Eberstadt notes in *Population and Development Review*, the demographic shifts convulsing eastern Germany since the 1989 fall of the Berlin Wall and subsequent union with western Germany are especially puzzling.

From 1989 to 1993, reports Eberstadt, the birth rate per 1,000 people in eastern Germany fell by 60%. And in just two years, from 1989 to 1991, the fertility rate of east German women aged 25 to 34 plummeted by over 45% and fell further in 1992.

Marriage and mortality rates in eastern Germany also underwent dramatic shifts. By 1992, the number of marriages per 1,000 people was less than half its level in 1989. And mortality rates surged. By 1991, for example, death rates for men and women aged 35 to 44 had climbed 20% to 30%.

Such changes are unprecedented for an industrial country at peace. (The drops in births and marriages even eclipsed those that occurred in Germany in the final years of World War II). What makes them even more puzzling, says Eberstadt, is that they occurred in one of the wealthiest former Soviet bloc nations, which has received a huge amount of economic aid since its dissolu-

tion. Indeed, its average monthly wage doubled from late 1990 to late 1992.

All of this suggests, says Eberstadt, that the transition from a planned economy and closed society to a liberal market order entails “far-reaching, often traumatic adjustments.”

## IDLE BALLPLAYERS, OUT-OF-WORK VENDORS —IT ADDS UP

The baseball strike is only days old at this writing and seems less than a blip on the economic radar screen. But economist Maury Harris of PaineWebber Inc. sees significant repercussions.

It's not simply the 1,000-plus baseball players on the 28 big league teams. Harris figures that at New York's Shea Stadium, there are 750 to 1,000 support personnel—vendors, security guards, ticket sellers, ushers, etc.—at each game. And that's just one stadium out of 28.

Further, notes Harris, with the \$8 million average major league ballplayer's salary 60 times that of the average U.S. nonmanagement worker, “1,000 striking players could do as much damage to the personal-income statistics as 60,000 average workers out on strike.”

Any effect on employment data won't show up unless the strike lasts into September, however. That's because the strike began at the end of the week of the August payroll survey, and anyone working at any time during that week is counted as employed.

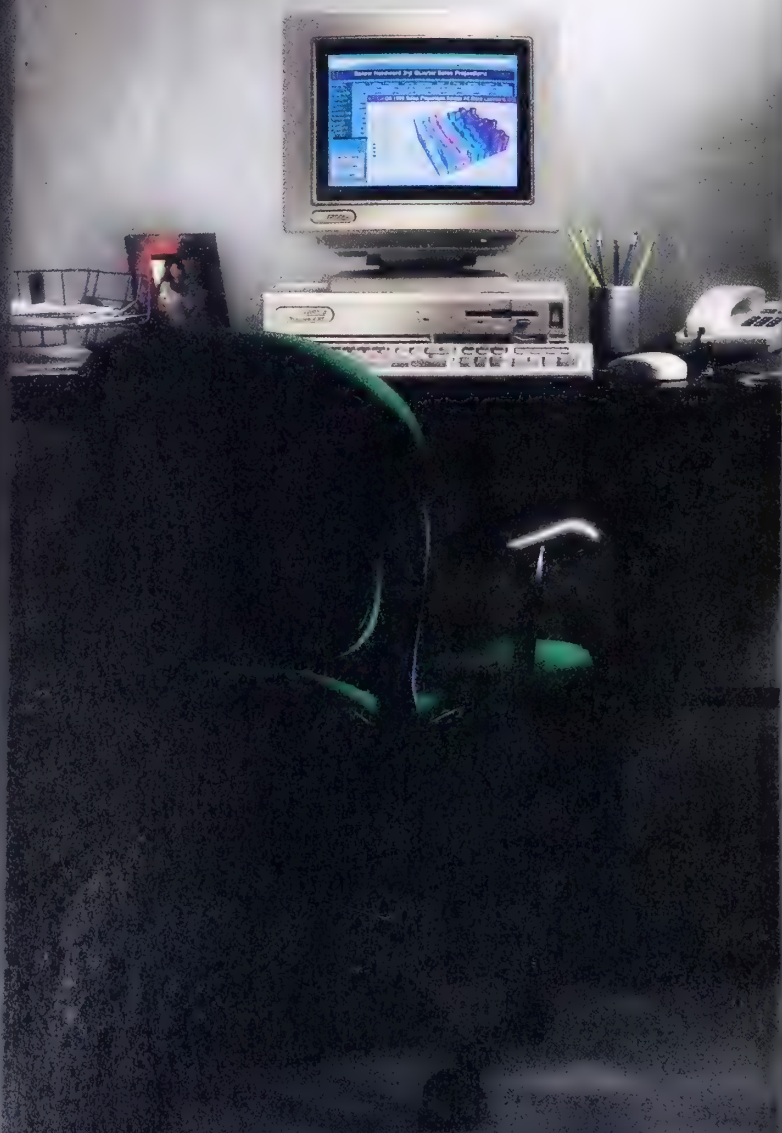
## IS CLINTON CASTING A PALL ON THE MARKET?

If the President needs a buoyant stock market to bolster his popularity, the market needs a popular President even more. That's the gist of a recent Salmon Brothers Inc. analysis, which contrasts the good market performances associated with Presidents such as Roosevelt, Eisenhower, Kennedy, and Reagan (and Bush in the wake of the gulf war) with the generally poor showings of the Nixon and Carter years.

“Politically successful Presidents tend to engender strong stock markets,” says Solly. “Politically weak ones suffer with poor market.” The firm finds that public approval ratings below 50% are associated with weak markets. And since Clinton's ratings are unlikely to exceed that threshold, it doubts that the bull market will return anytime soon.



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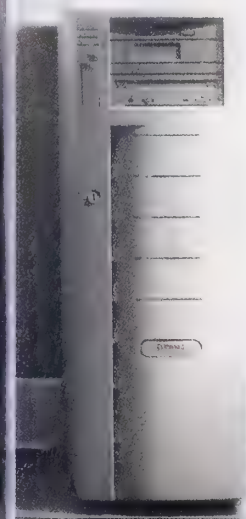
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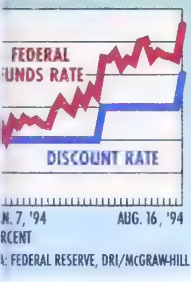


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## THE FED STRIKES WHILE THE IRON IS COOLING

The U.S. economy has had quite a run during the past year—4% growth, 3 million new jobs, and only 2.7% inflation. However, the Federal Reserve knows this happy combination cannot go on forever. Something has got to give. Based on the new round of tepid growth and the Fed's latest boost in interest rates, it looks like that something is going to be growth. So far, third-quarter growth is already shaping up to be decidedly less brawny than the past year's trend. And this Fed's tightening of policy will have a delayed effect on the economy, with its full impact not felt until 1995. After adjusting for price changes, retail sales began the quarter slightly below their second-quarter level. The same is true for housing starts. Industrial production is picking up, but in the face of weaker demand, a lot of production is winding up in retail warehouses, threatening to cut output this fall. All the while, inflation at both the wholesale and retail levels remains as docile as ever.

### OTHER HALF-POINT HIKE ON THE BRAKES



Obviously, the Fed wasn't looking at this low-inflation landscape during its Aug. 16 policy meeting when it decided to lift money-market rates for the fifth time since Feb. 4, citing "continuing strength in the economic expansion and high levels of resource utilization" (page 30).

In a decidedly aggressive move, the central bank raised the federal funds rate on overnight interbank borrowing by half a percentage point, to a year-high of 4%—a 1½-point hike so far this year. It also boosted the discount rate it charges member banks on loans by a like amount, to 4%, in a 7-0 vote (chart). Commercial banks reacted with embarrassing speed, hiking the prime rate by a half-point, to 7%, only minutes after the Fed's announcement.

### THE BOND MARKET DIVES A HUMBS-UP

The good news, at least for home buyers, is that the bond market rallied vigorously in response to the hike in short-term rates. The sharp drop in long-term interest rates could explain why the Clinton Administration sounded almost supportive of the Fed's action. The White House believes that lower long rates are much more important to continued growth. The yield on the benchmark 30-year Treasury bond edged at 7.37% on Aug. 16, a two-month low, which is

down from its high of 7.73%, hit on July 11. Bond gains fueled a stock rally, and the dollar strengthened. Given the signs of slower growth, the bond market finally seems impressed by the central bank's inflation-fighting resolve, suggesting that long rates may well stay down.

Bond players particularly liked the Fed's statement that the hikes will be sufficient, "at least for a time," to meet the central bank's objectives. That means another increase will be put off until the Nov. 15 meeting at the earliest—and perhaps until 1995—as long as recent signs of slower growth and tame inflation continue. The pronouncement removes uncertainty over near-term Fed actions, allowing traders more freedom to take positions and make pricing decisions on long-term securities.

Of course, the Fed's moves this year have been closely watched around the world. As a result, preemptive strikes against inflation now seem to be the policy *du jour* for central banks. The most surprising attacks came on Aug. 11, when the Bank of Italy and Sweden's Riksbank lifted their policy-setting lending rates. By raising rates now, both central banks said they hoped to head off price pressures.

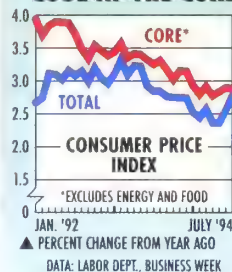
The twin moves suggest that, except for one more cut by the German Bundesbank, monetary policy in Europe is starting to shift toward a tighter stance, especially given the growing belief that the European recovery is developing a little more steam than previously expected (page 42).

The most likely candidates for the next hike include Britain, Spain, and Denmark. For the Fed, a globally synchronized monetary policy makes inflation-fighting easier, although higher rates abroad eventually could weaken the dollar in the currency markets.

### PRICES FOR ENERGY AND COFFEE SURGE

The generally tame look of the latest price data clearly shows that the Fed is out in front of the inflation curve (chart). The consumer price index rose 0.3% in July, but excluding energy and food, the core rate rose only 0.2%. Energy prices jumped 1.8%, finally reflecting this year's runup in crude-oil prices, and coffee prices soared 22.4% because of the frost damage in Brazil. But those are one-shot increases. In the past year, core inflation is a cool 2.9%, held down by moderation in service prices, especially

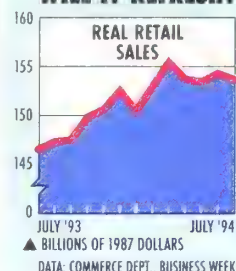
### INFLATION: STILL COOL AT THE CORE





those for housing, transportation, and medical care.

## A PAUSE IN BUYING. WILL IT REFRESH?



remains essentially zero. The demand-dampening effects of the Fed's rate hike will help to make sure that rising materials prices are not passed forward.

## HOUSING IS THE FIRST SECTOR TO BEND

Indeed, past tightening already appears to be cooling off consumer spending. Retail sales fell 0.1% in July, although May and June receipts were revised slightly higher.

Weak car buying accounted for all of the month's decline, but nonauto sales managed only a tepid 0.4% gain. Inflation-adjusted retail sales have gone nowhere since February (chart).

If buying does not pick up in August and September, consumer spending will be hard-pressed to match even the second quarter's weak advance, and that would slow growth in the industrial sector by more than what already seems likely.

Industrial production rose only 0.2% in July, but that gain was depressed by a drop in utility output back to normal levels following June's hot weather. Output in manufacturing alone rose a sturdier 0.4%, led by another solid gain in business-equipment production. Factory production would have been up 0.5% if not for a big drop in automotive output.

The problem is that, so far this year, factory output of

consumer goods has risen at an annual rate of 4.1% while real retail sales are up only 1.3%. That explains the buildup in retail inventories. In fact, the overall rise in stockpiles last quarter may have been even larger than the huge increase the Commerce Dept. had estimated in its report on gross domestic product. Inventories held by manufacturers, wholesalers, and retailers rose 0.4% in July and the May increase was revised up, to 1.2% from 1.1%.

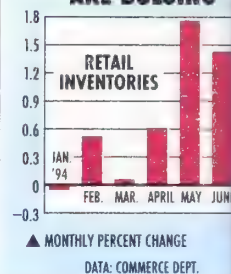
Wholesalers, whose inventories dropped 0.4% in June, apparently pushed their goods onto retailers, where they lay unsold. Retailers' stockpiles ballooned 1.8% in May and 1.4% in June (chart). The July combination of output gains and weak retail buying will only add to the inventory problem.

Past Fed rate hikes also show up in housing. Although housing starts rose 4.7% in July, to an annual rate of 1.42 million, they had dropped 9.4% in June. July starts are not only lower than their second-quarter pace, they are also well below their fourth-quarter peak.

That reflects the rise in 30-year fixed mortgage rates from 6.83% last October to 8.75% in the week ended August 12. The drop in long rates in response to the Fed's latest show of inflation-fighting resolve will help housing at least a little. But it will hardly reverse the effects of past increases.

In fact, its large half-point rate hike suggests that the Fed is willing to make a policy error on the side of restraint in order to keep inflation under wraps. Has the Fed overdone it? With the economy already slowing down and with the brunt of the demand-depressing effects of rate increases still in the pipeline, the central bank is now walking a fine line between controlling inflation and putting the expansion at risk.

## WHERE WAREHOUSES ARE BULGING



## THE WEEK AHEAD

### DURABLE GOODS ORDERS

*Wednesday, Aug. 24, 8:30 a.m.*

New orders for durable goods probably rose by 0.5% in July, after a 1.2% gain in June. That's the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. The July advance would be the fourth rise in new orders. The expected increase is so small, though, that the backlog of unfilled orders likely fell after rising for three straight months.

### INITIAL UNEMPLOYMENT CLAIMS

*Thursday, Aug. 25, 8:30 a.m.*

New claims for state unemployment benefits probably stood at 325,000 for the

week ended Aug. 20, about equal to their pace in early August. In the week ended July 16, filings jumped to a 24-week high of 390,000, lifted by auto workers temporarily laid off during model changeovers. Claims have come down sharply since then, however.

### GROSS DOMESTIC PRODUCT (REV.)

*Friday, Aug. 26, 8:30 a.m.*

The MMS survey expects that the Commerce Dept. will likely revise second-quarter GDP growth to a 3.9% annual rate, from the 3.7% pace originally reported. Last quarter's growth would still be faster than 3.3% increase in the first quarter. The upward revisions to the monthly retail sales data suggest that

consumer spending was stronger than first thought, and inventory accumulation may also be lifted. Revisions to inflation, as gauged by the GDP price deflator, were probably minor, with prices increasing at a modest 2.9% annual rate. Looking at the third quarter, the MMS median forecast projects that the economy is now growing at a slower, 2.8% pace.

### CORPORATE PROFITS

*Friday, Aug. 26, 8:30 a.m.*

Aftertax profits last quarter, as measured within Commerce's national income accounts, were likely up by 8.6% from a year ago. That would be slower than the 9.7% gain in the first quarter.

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AUGUST 29, 1994

**Y**ou remember California—the Golden State, with 15% of the nation's population and a history unrivaled for its trend-setting peculiarities. Hot tubs, Governor Moonbeam, and pierced navels. The land of milk, honey, and nuts—and, for the last half-decade, of sheer economic misery. Gone are the state's hordes of conspicuous consumers, smitten with convertibles, electronic gadgets, and fancy threads. The new economic mantra: layoffs, bankruptcies, and foreclosures.

Earlier this year, economists sensed shades of the old California reemerging: Employers were slowly starting to add jobs, and houses were once more being built on empty lots alongside oil pumps and palm trees. Well, hold the tofu. California, still hamstrung by layoffs in the defense and aerospace industries, no longer looks so sunny. Of the 40,000 jobs the state created in the first quarter of 1994, all but a scant 6,800 have since melted away—a sad performance at a time when the rest of the country was creating some 2 million jobs. After sliding for several months, the state's unemployment rate shot to above 9% again in July (charts).

**UNINSPIRING.** All this has local economists, who a few months ago had predicted the beginning of a mild statewide recovery, quietly scaling back their forecasts. This month, in its survey of 11 California economists, *Western Blue Chip Economic Forecast* dropped its estimate of statewide personal income growth to an uninspiring 3.8% rate, including inflation—the worst among the 10 Western states. Next year's expected 5% growth ranks last as well. "California's economy is more or less bumping along the bottom," says Federal Reserve Bank of San Francisco President Robert Parry.

The Fed's Aug. 16 decision to raise short-term interest rates by half a percentage point won't help matters (page 30). Higher rates will make business loans less accessible and heighten pressure on real estate activity that was only recently showing some signs of stirring. Some economists believe the ultimate effect could be to prolong the state's anemic economic performance. "The last thing California needs is for the U.S. economy to be slowed down," says Larry J. Kimbell, director of the University of California at Los Angeles Business Forecasting Project.

Even before the Fed's action, the state's numbers were hardly robust. Although housing starts through June were up by 15.4% over last year, according to the Construction Industry Research Board, they still trailed activity in recession-plagued 1991. Real estate



# BIG FIZZLE IN CALIFORNIA?

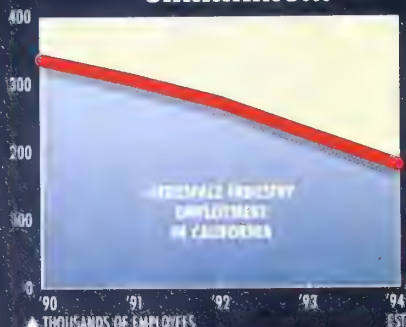
**WHAT ECONOMISTS THOUGHT WAS A RECOVERY IN THE GOLDEN STATE MAY HAVE BEEN ONLY A MIRAGE**



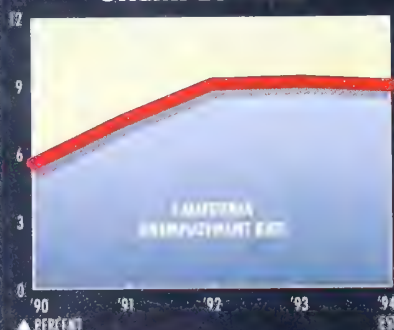
## DEFENSE CUTBACKS

SOME 30,000 STATE AEROSPACE WORKERS WILL BE FIRED IN '94

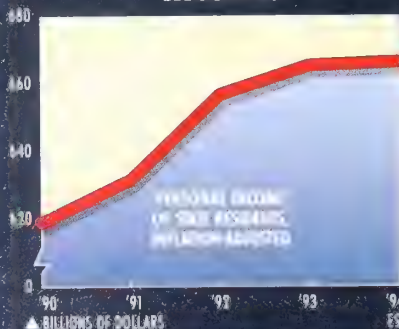
## DEFENSE KEEPS SHRINKING...



## ...FEEDING UNEMPLOYMENT...



## ...AND SQUEEZING INCOMES



DATA: UCLA BUSINESS FORECASTING PROJECT, WESTERN BLUE CHIP ECONOMIC FORECAST, LABOR DEPT.

## EARTHQUAKE DAMAGE



TOTAL LOSSES FROM JANUARY'S QUAKE HIT \$15 BILLION

## REAL ESTATE PRICES



HOUSING STARTS ARE UP, BUT THE MARKET REMAINS SOFT

prices in most of the state's largest cities remain soft. "They're still a very worried group of buyers," says Wade Cable, president of Presley Cos., an Irvine homebuilder. After running 30% higher in the first quarter, Presley's home sales for the year in California should increase by just 5% over 1993.

What's wrong with California? The state's huge manufacturing base, for one thing, has continued to dwindle—faster than most economists expected. The impact is especially severe in Southern California, where the UCLA Business Forecasting Project predicts that 30,000 more defense workers will be pink-slipped this year. And anticipated job gains in other industries haven't materialized. In fact, there have been surprise layoffs this year by large employers in financial-services, oil, and high-tech industries.

**DISASTERS.** The layoffs have been devastating to once stable and prosperous California communities. In San Diego, General Dynamics Corp. is selling off a 242-acre industrial parcel, complete with an employee carousel, after closing its Convair fuselage division. Layoffs: 1,900. Not far away, Teledyne Inc.'s Ryan Aeronautical will soon shut down for two weeks, idling some 800 workers, in hopes of postponing permanent cuts.

But California's problems go deeper than layoffs. A rash of disasters—most notably the Jan. 17 Northridge earthquake—continues to prompt an exodus of both businesses and wealthy individuals. Even the expected rush of federal dollars following the Northridge quake, a potential stimulus to the economy, has been slow in coming. The federal Small Business Administration has lent an estimated \$3 billion but so far has processed only about 40% of 212,000 applications, according to Administrator Erskine B. Bowles. That has been barely enough to increase the state's construction employment by 4,000 jobs in the year's first six months, estimates the Construction Industry Research Board. In the meantime, losses from the disaster have totaled \$15 billion.

The state has its optimists who still see signs of eventual recovery. Jack Kyser, chief economist for the boosterish Economic Development Corp. of Los Angeles, points to falling commercial vacancy rates, an uptick in payroll taxes, and some stirring among major retailers who have moved into the state as proof that California is on the mend. Yet even Kyser admits the Golden State's situation is fragile. "There's recovery going on, but sometimes you have to check the mirror for signs of breathing."

California's unemployed can vouch for



that. July's jump in the unemployment rate, 0.7 of a percentage point, was the largest of any major state. To Joan Lyon, an unemployed human-resources executive in San Francisco, that meant "terrific competition" for the three jobs she has been interviewed for since June. Sam Friedman, who closed his 12-person computer consultancy three years ago, has had no luck finding another business. "The banks just won't lend money to a startup in this state," he says.

**LOOKING NORTH.** The state does have its healthy pockets, such as a surprisingly robust Sacramento region. There, home construction is up by 23%, as Californians from more expensive and earthquake-prone regions flee to the area's relatively low cost of living. "I wouldn't call it a boom, but it's a lot stronger than a lot of other economies in the state," says Robert Gary Spohr, a onetime San Francisco equipment-leasing executive who recently bought a large copy shop in Sacramento. Computer maker Packard Bell Electronics Inc. is also looking northward: Prompted by legislation that will soon create a new enterprise zone in Sacramento, it has said it will likely move its 1,500-person workforce from Southern California.

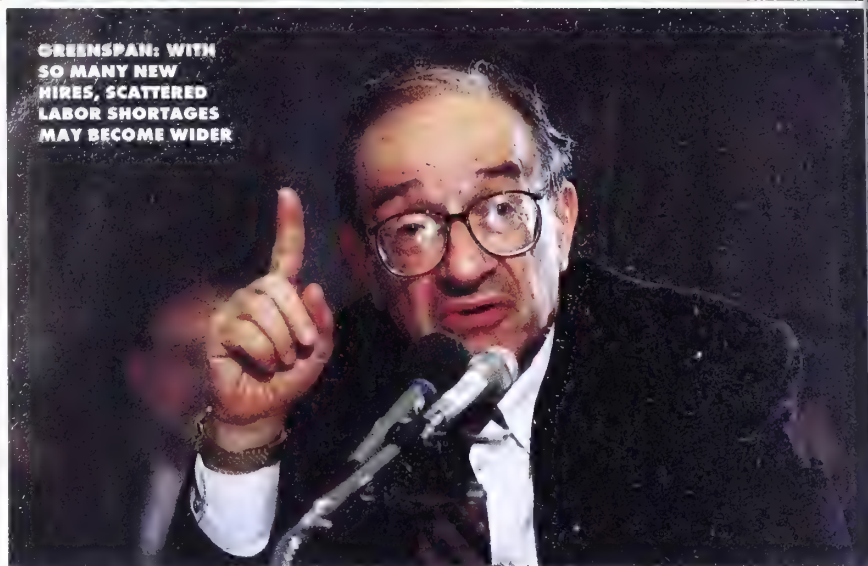
Luring business to the state, though, is still a tough slog. Despite legislation to ease workers' compensation costs and boost tax credits for business investment, companies such as Apple Computer Inc. and Intel Corp. recently decided to expand in states that offered better benefits. And even with a new \$13 million advertising campaign to sell the state, finding new employers may soon get even tougher. The state's \$1 billion budget deficit could mean higher taxes. And new smog regulations, to be announced this fall for five Southern California cities, are expected by local governments to cost \$5 billion annually and slow employment by 63,000 jobs by the end of the decade. "The EPA's plan is a bullet aimed at the economic security of our community," complains Ontario Mayor Gus James Skropos.

In time, experts say, the Golden State should regain its luster. The state's underlying economy remains vibrant, says the Center for Continuing Study of the California Economy in Palo Alto. New service jobs related to biotechnology, the Info Highway, and foreign trade, it says, will add 3.7 million new jobs in the state by 2005. Sounds nice—but very distant—for a recession-weary California, which these days is getting remembered for all the wrong reasons.

*By Ronald Grover in Los Angeles, with Alice Cuneo in San Francisco and bureau reports*

## THE ECONOMY

**GREENSPAN: WITH SO MANY NEW HIRES, SCATTERED LABOR SHORTAGES MAY BECOME WIDER**



## WHY THE FED SAW CLEAR AND PRESENT DANGER

The economy is so robust, inflation jitters seem warranted

**W**hen the Federal Reserve stunned Corporate America with a half-point boost in interest rates last May, many executives worried whether an economic expansion that appeared to be losing steam could take the hit. And the Fed's hints that it wouldn't be raising rates again for a while suggested that even the central bank thought it might have been pushing the envelope.

Now comes the real surprise—just how resilient the economy is proving to be. It shrugged off that May rate hike with a surge in industrial production, job growth, and a wave of new borrowing that surpassed most forecasts (charts). No wonder the Fed was forced back into action on Aug. 16, when its policymaking Federal Open Market Committee approved another half-point boost in the federal funds rate—the rate banks charge each other for overnight loans.

**Clintonites are happy:  
Hitting the brakes now  
makes a hike less likely  
just before the '96 elections**

The increase, to 4.75%, was accompanied by a half-point hike in the discount rate the Fed charges banks directly.

But unlike the Fed's four previous rate hikes, which prompted hand-wringing in executive suites and the Oval Office, the latest gambit of Fed Chairman Alan Greenspan is stirring far less fear of overkill. Why? Because fewer executives see consumer confidence as being as fragile as it was last spring. Rather, the economy seems so robust that economists are raising their growth estimates—and some anticipate yet another half-point rate boost later this year, probably after the November election. "The low interest rates of '93 have clearly given this economy powerful momentum," says Paul W. Boltz, chief economist for T. Rowe Price Associates Inc. "The Fed needs to provide more tightening to restrain this beast."

**CAR CRUNCH.** Even some rate-sensitive industries are applauding the Fed's action, in hopes it can cool a surging economy. Chrysler Corp. executives hope that rising rates will temper consumer demand, which is outstripping automakers' ability to supply the market. With the industry unable to retool its factories fast enough, some models have been in short supply. The Fed's latest move "is the best thing that could happen," says



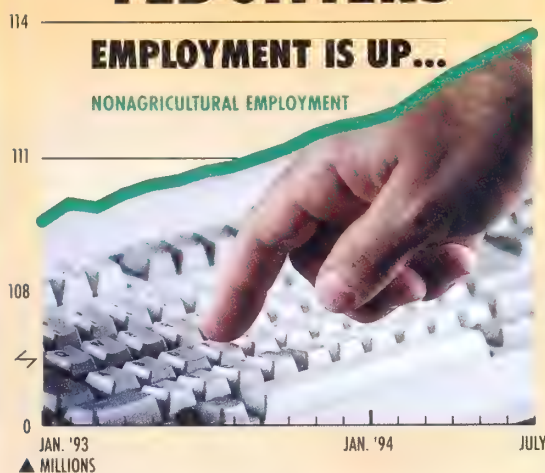
of Executive Robert J. Eaton. Equally astounding, Clinton administration economists are enthusiastically embracing Fed policy in private. They, too, fear a overly vibrant economy could create an inflation problem if not restrained now. This sentiment is clearly shared by the new Clinton appointees to the Fed Board, Alan S. Blinder and Janet Yellen, who joined in the unanimous decision to hike the discount rate. "We're creating jobs at a pace that just a year ago we thought wasn't possible," says one Administration economist. If the Fed didn't move now, Clintonites figure, Greenspan & Co. would have to hit the brakes just before the 1996 elections.

To be sure, some business people think the Fed is overreacting. Paul Huard, senior vice-president of the National Association of Manufacturers, worries the Fed's action "may be a case of moving too aggressively at a time when price pressures remain at low ebb." "Five rate increases seem a little extreme," says Jeffrey A. Banaszynski, European sales manager for Allen-Bradley Co., a maker of factory automation gear. "If you take out the indicators, there's no ongoing inflationary trend."

**W HIRING.** Technically, that's true. Even the Fed would concede that there are only inflationary whiffs in the air today. Greenspan is convinced that robust growth now would lead to inflation next year. And he has anecdotal evidence of troubles ahead on the price front. Exhibit No. 1: the rash of new hiring, which has sparked modest acceleration in wage growth. The economy is on pace to add more than 3 million jobs this year, and very impressive productivity gains by corporations have kept unit-labor costs under control. Greenspan has warned that wage pressures could build if spot labor shortages spread across the country. Centex Corp. can vouch for that. The Dallas-based homebuilder has been scrambling to find bricklayers in Texas and carpenters almost everywhere else, though it expects the shortages to ease with higher interest rates already cooling home sales. And in Charlotte, N.C., where the unemployment rate has slipped below 4%, Wilton Connor Pack-

## FED JITTERS

### EMPLOYMENT IS UP...



### ...LENDING IS ACCELERATING...



### ...AND PRICES ARE NUDGING HIGHER



aging Inc. has gone to unusual lengths just to fill half of the 90 available jobs: The company is hiring high school students and autistic workers for packing jobs and is employing prison inmates on work release to make boxes. "We were looking for folks that could be with us for some time," says company founder Wilton Connor.

Such activity explains why some ana-

lysts doubt the Fed's Aug. 16 move will slow the economy to the 2.5% growth rate the central bank considers ideal for sustaining a noninflationary expansion. David M. Jones, chief economist at Aubrey G. Lanston & Co., believes the second-quarter growth rate may have hit 4.2%, well above the government's initial 3.7% estimate. And with the auto industry prepared to boost production this fall, Jones believes the economy could grow as much as a full point more than the 2.5% many economists previously forecast.

**EARLY WARNING.** The Fed also is concerned about a recent surge in credit demand that would fuel inflation. Consumer loans, which were rising at a 14.4% pace this year, surged 25.8% in July. And commercial and industrial loans shot up 17% in July, besting a 9.6% rate in the year's first six months.

The Fed may find in such data confirmation that it can't wait until inflation shows up in the government statistics. While the widely followed consumer price index shows few worrisome signs of inflation as of now, Greenspan contends the central bank's views are influenced more by such key early warning signals as commodity prices.

There, the news isn't reassuring: *The Journal of Commerce's* commodity price index is up 12% since January. And prices of core intermediate goods have risen for three straight months—at an annualized 5.2% rate, the highest level since 1987, notes First Union National Bank economist Mark P. Vitner. Even the CPI, which has risen 2.8% over the past year, is unnerving some economists, who have noticed that the index has climbed at a 3.3% annual rate since May. "The best inflation news is behind us," says St. Louis economist Laurence H. Meyer.

Those first troubling glimmers of inflation, combined with a strong economy, could force Greenspan to raise rates again come fall. This time around, he got considerable support from the markets, key business interests, and the Clintonites for taking action. The question now: Will that support hold up if he decides to drop the hammer again?

By Dean Foust in Washington, with Jonathan Ringel in Atlanta, Richard A. Melcher in Chicago, and bureau reports



Commentary/by Mike McNamee

## KEEPING THE HEALTH PLAN FROM KICKING THE BUCKET

**T**ime is running out for President Clinton and his allies in Congress. They don't have the votes to pass the comprehensive, mandatory health insurance plan Hillary Rodham Clinton proposed 11 long months ago. If the Clintons want to rescue any sort of victory from the current chaos, they must drop their demand for universal coverage and shift the debate to a basic question: What can Congress do now to solve the most pressing problems of our bloated, unfair health-care system?

The answer: a lot. Washington has already reached a consensus on sweeping revisions of health insurance that would ban the most loathsome practices—such as red-lining the sick or dropping policyholders when they need coverage most. Coupled with simple steps to make the medical market more efficient, these reforms—widely acceptable politically—could reverse the twin spirals of declining coverage and out-of-control costs that are undermining America's health care.

Hillary Clinton scoffs at such "incremental" reforms, warning that they could make Americans worse off. That certainly has been the case in New York, where legislators took ideas designed for a mandatory insurance plan—guaranteed access to coverage at prices that ignore age-related differences in health costs—and laid them on top of a voluntary system. Premiums shot up as older, sicker people flocked to buy policies, while young adults dropped insurance. The result: 25,000 fewer New Yorkers have insurance now. The Health Insurance Association of America figures that careless reforms could drive up premiums nationwide by 29% to 45%.

But pitfalls such as these can be avoided. If Congress wants a practical health-reform plan that can fly, here's a blueprint:

■ Let everyone buy insurance—but not on the way to the hospital. Every major bill in Congress requires insurers



to sell to all comers, healthy or sick. "With some bills, you can pay a \$400 first-month premium, get a \$10,000 operation, then drop the policy," says Henry J. Bachofer, an analyst at Blue Cross & Blue Shield Assn. The solution: penalty rates and limits on coverage of preexisting conditions for patients who let their coverage lapse. Sick people could change insurers without facing any penalties, but free-riders who can afford coverage but go months without it would pay extra to buy back in.

■ Let insurers set premiums by age, not by health. A 60-year-old uses four times as much health care as a 25-year-old. But many reform plans would make both pay the same premium—a scheme known as "pure community rating." Besides being unfair—young work-

ers would subsidize middle-aged people who are in their peak earning years—such plans drive young people to drop their insurance. (The elderly are a separate matter: Their costs are largely covered by Medicare, which isn't being reformed.) Smart reform would protect the sick but would let premiums vary by family type, age, and local health costs.

■ Give consumers clear benefits choices, but don't lock in a one-size-fits-all plan. Reformers want to impose a standard benefits plan, so buyers can easily compare prices and quality. The pitfall: When politicians specify benefits, as the Clintons did in their bill, the plan inevitably becomes expensive and inflationary, as every medical interest group insists on being covered. The best remedy is to create a half-dozen model packages that let insurers experiment without confusing buyers.

■ Tell consumers how much they're spending. Few people realize what their employers pay for health insurance—or that insured workers share in a \$75 billion-a-year tax break. Reform should require companies to spell out those costs on annual wage statements. Congress should ignore labor's opposition and tax the richest medical benefits.

These reforms alone won't bring health insurance to every American. Small business must step up efforts to form purchasing cooperatives to bolster its buying power and bring down premiums. The government still must subsidize the poor. And even then, some people—mostly the young who don't expect to need care—will choose not to buy insurance.

But incremental changes can halt the decline of America's health system. And they're accepted by virtually every insurer, health provider, and business. That's a formula for political success—and better health care for millions of Americans.

*McNamee covers health-care issues.*

### A HEALTH PLAN THAT CAN PASS—AND WORK

#### INSURANCE REFORM

- ▶ Let insurers set premiums by age, but not by health status. The healthy will subsidize the sick; the young won't be driven out.
- ▶ Keep some restrictions on pre-existing conditions. Charge free riders extra to resume coverage.
- ▶ Let insurers experiment with variations on standard benefits.

#### COST CONTROL

- ▶ Make health costs visible. Employers should let workers know what impact their health premiums are having on wages.
- ▶ Start limiting tax breaks for insurance.
- ▶ Make doctors and hospitals compete. Don't pile restrictions on efficient managed-care plans.



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- 4MB RAM (expandable to 20MB)

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HOLLYWOOD

## THE BABY BELLS GO HOLLYWOOD

Joint ventures with Disney and CAA aim to create programming

**T**he battle to control your television has been joined...by the Baby Bells. The folks who brought you digital switching and speed dialing intend to crash into your living room, bringing a new onslaught of cheesy sitcoms, zircon shopping, and even a sporting event or two.

In one week, six of the seven Baby Bells installed a direct connection to Hol-

lywood. On Aug. 8, Walt Disney Co. announced that it was negotiating to set up a joint venture with Ameritech, BellSouth, and Southwestern Bell. Three days later, word leaked that superagent Michael S. Ovitz and his Creative Artists

Agency were involved in talks with Bell Atlantic, Nynex, and Pacific Telesis aimed at forming a similar venture.

**CRITICAL MASS.** The moves underscore the telecommunications industry's intent to go head-to-head with the cable-TV business. "The notion is to develop a venture that can put together a critical mass of programming," says

Thomas O. Staggs, Disney's vice-president for strategic planning. The B expect eventually to distribute programming—their own and others'—over graded lines, collecting lease payments for access. Phone-line services may

include shopping and banking channels, games, educational shows, and traditional broadcast and satellite networks.

What's startling is how fast the Bells were able to forge links with Hollywood's creative community. They now see program acquisition and development as a key to differentiating their video services from those of compet-



**CREATIVE ARTISTS AGENCY**

Superagent Michael Ovitz (left) is negotiating a venture with Pacific Telesis, Nynex, and Bell Atlantic to provide programming. CAA, which lured top exec Robert Kayner away from AT&T in July, would act as consultant to the Baby Bells. Microsoft may be involved, too.

## INFO HIGHWAY TRAFFIC LOOKS SNARLED ALREADY

The Ovitz-Baby Bell hookup is just the latest deal between Hollywood and telecom operators. In the rush to construct a new communications superstructure, programming will be key. *BUSINESS WEEK's* Paul Bennett and Mark Landler mapped out the web of recent deals:

### THE LINKUPS

- PHONE COMPANIES
- PROGRAMMERS
- CABLE

#### BELL SOUTH

#### SOUTHWESTERN BELL

#### AMERITECH

#### PACIFIC TELESIS

#### NYNEX

#### BELL ATLANTIC

CEO Raymond Smith (above) aborted the TCI merger. But he's leading talks with CAA.

#### McCAW

#### AT&T

Has nearly finalized its \$12 billion takeover of McCaw Cellular Communications. Testing interactive technology with a Viacom cable system.

#### U.S. WEST

A \$2.5 billion investment in Time Warner gives it access to programming from HBO and Warner Bros. Tested interactive video systems with AT&T and TCI.



### TELE-COMMUNICATIONS

TCI's John Malone has his fingers in many pies. Backed Barry Diller's QVC in Paramount war.



#### MICROSOFT

#### WALT DISNEY

A deal with BellSouth, Southwestern Bell, and Ameritech gives it access to over 50 million phone customers in 19 states. Ownership structure is unclear.



#### VIACOM



Won the Paramount battle—in part, with a \$1.2 billion investment from Nynex. Now it's negotiating to sell cable systems to a TCI-led partnership.

#### TIME WARNER

Its HBO unit, with Paramount, Disney, and others, is participating in a Bell Atlantic market test of video-on-demand.

#### SEGA

With TCI and Time Warner, working to create a video game cable channel.



# IS NINTENDO A STREET FIGHTER NOW?

It's turning up the heat on Sega by enlisting independent game makers

It's humble pie time at Nintendo Co. The video game giant is attempting a comeback against archrival Sega Enterprises Ltd. And in a tremendous decline in hubris, it is aggressively seeking help from some U.S. and European startups. Beginning this fall and early next year, Nintendo will begin selling new software and hardware that young, independent outsiders helped develop. The details are still under wraps, but Nintendo of America Chairman Howard Lincoln confirms that the new strategy is under way.

The shift underscores how big a battering Nintendo has been taking from Sega. A couple of years ago, Nintendo worked almost exclusively with Japanese partners on hardware. And it demanded that third-party software developers sign exclusive deals and pay 30% royalties for the privilege of writing games for its systems.

But that was before Sega shouldered in. Aided by technical leaps, low prices, and a huge in-house software team, Sega has zapped Nintendo into second place (chart). And as it has gone for No. 1, Sega has been wrestling top independent software companies away from Nintendo. Now, such best-sellers as Street Fighter II from Capcom Co. and Mortal Kombat from Acclaim Entertainment Inc. are coming out on both companies' machines.

**VIRTUAL HIT.** To counter Sega, Nintendo is gambling on a drastic tactical change. Late last year, it linked with computer leader Silicon Graphics Inc. to design a new game system, called Ultra 64. Now, it has even started paying companies to write software exclusively for it. For instance, RARE Ltd. and DMA Design in Britain are helping write programs that will sell under the Nintendo name, and industry sources say the company has signed Dallas-based Paradigm Simulations Inc. for the same deal. And Acclaim Entertainment is creating a game

called Turok—initially to be offered only on Ultra 64. Paradigm and DMA won't comment, but sources say Nintendo is paying a development fee plus royalties of 2% to 12%—worth millions of dollars for a hit game.

While it waits for Ultra 64, Nintendo is launching an interim sales booster, code-named 32 VR. Most of the details are still secret, but industry sources say Nintendo and a U.S. startup are co-developing "virtual reality" goggles that have their own three-dimensional display. Nintendo President Hiroshi Yamauchi has confirmed only that the new machine will use a 32-bit microprocessor, twice the power of Nintendo's current 16-bit games, and will sell for under \$200. Nintendo will announce the product this fall in Japan, and it is scheduled to hit the market

in the U.S. and in Japan next spring.

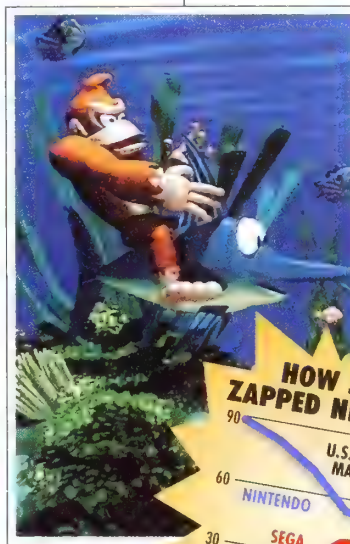
Meanwhile, some of Nintendo's new partners in software are already adding to its stock of games.

Britain's RARE helped Nintendo create a new

game called Donkey Kong Country, which revives the arcade game that introduced Super Mario. It will be launched this fall on the 16-bit Super Nintendo Entertainment System and will carry a marketing budget of \$10 million. Sales could hit 2 million units by Christmas.

Sega, of course, isn't giving up the fight. This fall, it will release its own \$139 add-on device, dubbed the Genesis 32X, which gives new power to its 16-bit Genesis machine. Sega's software developers are also scrambling to create unique new games. Still, Nintendo is finally grabbing the joystick and blasting Sega head-on. And none too soon.

By Richard Brandt in San Francisco, with bureau reports



HIGH HOPES: NINTENDO'S DONKEY KONG REVIVAL

PERCENT DATA: DATAQUEST INC. EST.

ups of cable and phone companies. is not a distribution deal—it's prom development," says W. Patrick npbell, executive vice-president at eritech. Campbell, who negotiated deal with Disney, is no stranger to lywood: Until six months ago, he ded Columbia TriStar Home Video, a t of Sony Pictures Entertainment. The rumors swirling around Creative ists are even more tantalizing. While red by Hollywood labor-guild rules n participating directly in production ities, Ovitz clearly has the connec- s to funnel programming to the com- y. His roster of more than 900 cli- s includes heavyweight directors ven Spielberg and Francis Coppola, h entrepreneurs with well-honed high- i interests, plus scores of writers and rs. Moreover, Ovitz has nurtured re- onships with the likes of Microsoft irman William H. Gates III, who is 'king on a "navigator" to help guide viewers through a maze of choices.

**ROMANT TREASURE.** Further down the d, Ovitz also plans to peddle long- ering Metro-Goldwyn-Mayer Inc. The dio, controlled by French bank Crédit onnais, with whom Ovitz consults, is ng prepared by Ovitz-selected Chair- a Frank G. Mancuso for a sale within e years. MGM regains the rights to its 00-film library by the end of the ade, and its trove of old *Pink Panther* i *Rocky* flicks would allow the Baby ls to join the TV big leagues virtually rnight. "The telcos want to produce ir own programming," says W. John onsohn, consumer communications an- st at market researcher Yankee Group Boston. "And the easiest way would to take a stake in a studio."

Now, the only thing standing in the y is the 1984 Cable Communications ., which prohibits Baby Bells from der- ing their own video entertainment in ir own service territories. Congress is rely expected to lift the ban, though, haps later this year. Already, U S st and Bell Atlantic are exempt after ting the rule overturned in court. U S st got a jump on its rivals last Sep- ber, when it invested \$2.5 billion in ne Warner Entertainment, giving it ess to film and cable production.

Dismantling the cable act also will n local phone service to competition n cable-TV companies, another rea- i the Bells are eager to launch new eractive services. Can they pull it off? ys analyst Aronsohn: "With compa- s beginning to look past the physical istribution networks, we've started mov- ; into the next phase of highway pe." But with deep pockets and vast omer lists, the Baby Bells promise to iver quite a bit more than hype.

By Larry Armstrong in Los Angeles



## GM FINALLY FACES UP TO THE DANGERS OF INBREEDING

In a radical move, it may consider an outsider as its next marketing honcho

It's the marketing challenge of the decade. Or the job from hell. When General Motors Corp.'s top brass in late June took the unprecedented step of throwing open to outsiders its search for a new North American marketing honcho, they offered up a post that could be both. The job "requires guts as much as brains," says Oldsmobile Div. General Manager John D. Rock. "The guy will need a tin badge and a bullet-proof vest."

Why such gnashing of teeth over a search for, well, a car salesman? GM isn't looking for just any marketer. The hope is that a high-powered outsider can bring enough clout and savvy to the post to make major changes in the way the company does business. "We're not just looking for a marketing guru. It's much grander than that," insists James C. Carpenter, the headhunter for New York-based Russell Reynolds Associates Inc., who is scouring the nation for candidates. One measure of how seriously GM is taking the search: It started in June, and the company doesn't expect a winner to be announced for at least another month or two.

The driving force behind the talent hunt is Chairman John G. Smale, retired head of master marketer Procter & Gamble Co. So, not surprisingly, speculation about likely candidates frequently centers on P&G alumni. One star marketer rumored to be on GM's list is William B. Connell, former vice-president for beauty care, who recently left Whittle Communications LP to become a venture capitalist. "I can't talk about that," he says. Some scuttlebutt, though, such as the frequent mention of former P&G Vice-President Charles A.

Lieppe, seems to be off target. "Nobody's ever been in touch with me about it," says Lieppe.

Even with Smale backing the search, however, there is some question as to whether GM will actually follow through with its plan to bring in an outsider. J. Michael Losh, who in June vacated the marketing post to become GM's chief financial officer, insists that insiders are still being considered. Given GM's inbred culture, analysts worry that he and other top brass may prefer to elevate one of their own. Rumored candidates include the general managers of three of GM's car divisions: Buick's Edward H. Mertz, Pontiac's John G. Middlebrook, and Saturn's Richard G. "Skip" LeFauve.

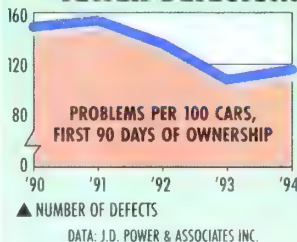
And even if GM does opt for an out-

America Tour," which lends new Lumir sedans to 70 families to drive on the vacations. But any newcomer will have to make such campaigns work in a company that's notoriously hostile to outsiders, rife with brutal politics, and deeply resistant to change.

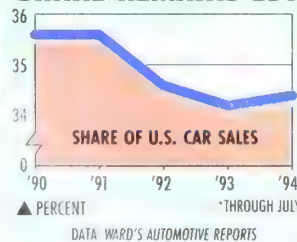
Given the challenge, there are some indications that the company is trying to nab a real hotshot. For instance, GM may have approached Michael A. Miles, the former CEO of Philip Morris Cos., but analysts speculate that Miles would balk at the idea of taking less than CEO's job. Asked if he's a candidate, Miles says: "That is strictly a rumor."

**"ABYSMAL."** Still, whoever is chosen, it's clearly a good sign that GM finally seems to realize that it needs new oomph in marketing. Because its top jobs have been dominated for decades by a succession of "car guys" and "bean counters," marketing has gotten short shrift. That's a major reason why, despite improvements in quality and styling, the company's market share continues to languish (charts). "GM's marketing has been abysmal," declares Furman Selz Inc. analyst Maryann N. Keller.

### GM CARS HAVE FEWER DEFECTS...



### ...BUT MARKET SHARE REMAINS LOW



sider, it may have trouble finding anyone who will accept the job. It's a huge position to fill: GM's car and truck divisions, with \$100 billion in sales, report to the marketing chief. So do advertising, service parts, Canadian sales, and a raft of support operations. The company needs to refocus its fuzzy marketing strategies and the images of six tangled nameplates that often compete with one another. Also needed are lots more creative ideas like Chevy's current "Discover

But for an outsider to have a chance at forging real change, Smale may have to throw his weight behind the winner and keep it there. "Anybody they hire is going to understand that he will be about as welcome as the flu in winter," says Keller. Hardly a dream assignment, but one that could pay big dividends for General Motors if it makes the right choice.

By Kathleen Kerwin in Detroit, with Zachary Schiller in Cleveland

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STEEL

## NICHE WORK—IF YOU CAN GET IT

Pittsburgh's first minimill faces brawny neighbors and rich rivals

**E**ver since the steel industry virtually abandoned Pittsburgh in the 1980s, developers have pondered new uses for the miles of shuttered mills lining its three rivers. Movie studios, industrial malls, even museums were all considered. Then, on Aug. 11, entrepreneur Matthew Botsford launched the boldest project yet: a new steel mill, the first in western Pennsylvania since World War II. With a \$340 million investment, he hopes to expand his small steel-processing outfit into the Iron City's first minimill, WorldClass Steel.

Botsford, 58, represents a new breed of feisty steelmakers. Using largely untested technology and nonunion workers, they're targeting niche markets—such as extra-thin steel—that until now have been dominated by big foreign and U.S. steel companies. And in today's buoyant steel market, they're getting big backing from investors.

**TOUGH TIMES.** But Botsford is trying to go his fellow entrepreneurs one better by starting his company in Big Steel's backyard. To cut costs, he's fixing up an abandoned U.S. Steel Group facility to house his mill, and he's making use of existing rail lines and river docks. The huge risk: that big, integrated companies will decide to do battle for the same niches. "The existing producers are not going to roll over," says John E. Jacobson, a steel consultant in Swarthmore, Pa.

Botsford has pulled through tough times before. A former salesman for big steel companies, including LTV Corp., he quit his job in 1987 and set out to raise money to start a steel-processing business to trim and cure steel for larger companies. For a grubstake, he and his wife, Gail, mortgaged their house—and nearly lost it when cash got tight and they couldn't make their payments. By 1992, he finally had succeeded in raising \$35 million in loans and investments from big investors (whom he won't name) to start WorldClass Processing Inc.

Now, Botsford thinks he sees an opportunity to live peacefully with his brawny rivals. Intent on cutting costs further, Big Steel is bailing out of many of the smaller markets he aims to fill.



**BOTSFORD'S WORLDCLASS STEEL HAS SOME HEAVYWEIGHT BACKING IN TIPPINS**

He believes the big mills can contract such work to WorldClass. In fact, he's hoping that U.S. Steel will swap land for a slice of his company. U.S. Steel won't say whether it is interested.

But the challenges to such a venture are many. Unions, for one. Botsford now employs 65 nonunion workers at his processing operation. Rather than fight the unions—as minimill operators Nucor Corp. and Birmingham Steel Corp. have—Botsford adopts a soft line on labor. As long as the union promises flexible work rules, he says he doesn't

care if the plant's 450 workers are represented or not. The United Steelworkers, though, seem intent on organizing the operation on their own terms. Says USW President George Becker: "I have every reason to believe it will be a union facility."

Then there are the technological risks. Until last winter, Botsford was planning to expand his steel-processing business. Then he heard about a steelmaking technology developed across town by Tippins Inc., a rolling mill manufacturer. The new mill, known as TSP, offered the cheapest entry yet into lucrative flat-rolled steel for products such as appliances and autos. At a base price of \$200 million, TSP comes in \$120 million less than the German steelmaking technology used by Nucor at its two groundbreaking minimills. But if glitches emerge in this first TSP mill, delays could sap Botsford's finances.

Still, Botsford should have plenty of backing for his new venture, which includes a \$290 million version of the TSP mill, plus \$50 million in additions to his processing business. Tippins and its partner in TSP, Korea's Samsung Heavy Industries, were hungry enough for a first customer to take an undisclosed equity position in the venture. Also ready with about \$33 million was the State of Pennsylvania. And Duquesne Light Co., anteing up cheap electricity, a key cost for minimills, which melt steel scrap in 3,000F electric furnaces.

**BIG-STEEL WATCH.** Botsford still has to raise more than \$200 million of the project's cost, but with steel prices surging, that probably won't be hard. Earlier this year, other steel entrepreneurs—a trio of Nucor rivals led by former plant manager Keith Busse—raised \$400 million for the Indiana mill in just a few months.

Botsford's main challenge now may be steering clear of tough competitors such as Nucor, Busse, and a host of Nucor look-alikes coming on stream over the next three years. Even if Botsford succeeds in staying a step ahead of other minis, however, he must also keep a wary eye on Big Steel, which is forging a comeback of its own. It's hard to say just how patient the big guy will be with the only minimill in the neighborhood.

*By Stephen Baker, with Keith L. Alexander, in Pittsburgh*

### FORGING A COST ADVANTAGE

*Initial capital investment*

**CONVENTIONAL STEEL MILL**

**\$1.2 BILLION**

**NUCOR MINIMILL**

**\$320 MILLION**

**TIPPINS MINIMILL**

**\$200 MILLION**

DATA: BUSINESS WEEK



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C L A S S

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UNITED AIRLINES



EDITED BY KEITH H. HAMMONDS

## TO CYANAMID, A BUCK MADE THE DIFFERENCE

One hundred dollars a share didn't quite cut it. At \$101, though, American Home Products had a deal. On Aug. 17, after two weeks of resisting, American Cyanamid finally accepted AHP's revised \$9.6 billion merger offer—one day after a deadline for the slightly less generous bid had expired. The annual revenues of the combined drug, chemical, and consumer-health-product giant will be more than \$12 billion. AHP's expensive chase helped lift depressed drug stocks generally. The biggest gainer was Eli Lilly, whose shares jumped 9% in just two days on ru-

mors that Britain's Glaxo Holdings was pondering a takeover attempt. Some analysts say investors are overreacting, given Lilly's weak development pipeline. Neither company would comment.

## KMART AIMS FOR A REALLY BIG SALE

It really listened to its shareholders. On Aug. 17, two months after investors voted down Kmart management's restructuring scheme, the troubled retailer offered Plan B. This one calls for spinning off majority interests in three specialty retailers, raising funds to be plowed back into core discount stores. First on the block: the OfficeMax office-supply chain, to be followed by Sports Authority and Borders/Walden bookstores. Investors indicated support for the new strategy.

## AT UNITED, STAFF IS UP—BUT PAY IS DOWN

Employee ownership at United Airlines is bringing an unexpected boon: more jobs. The airline will hire 1,700 new workers—many of them for its new discount operation, United Shuttle, whose West Coast takeoff is set for Oct. 1. While the move runs counter to United's stringent cost-cutting campaign, the airline can't afford to lose revenue from staff shortages, says new Chairman Gerald Greenwald. The catch: Newly hired pilots and mechanics will earn, on average, 15% less than they would have gotten before the employee buyout was approved on July 12.

## TV-LICENSE BUYERS STIFF THE FCC

Just weeks after conducting its first-ever auction of the airwaves, the Federal Communications Commission says many of the winners of interactive-TV licenses are

## HEADLINER

## THE WOODSTOCK GENERATION—OF REVENUES

Call it a Nineties thing: The commercialism that went into Woodstock '94 was as naked and unapologetic as some attendees. So just how many bucks did "Three More Days" of love and music spin for its backers? PolyGram Diversified Entertainment estimates that the big gig cost \$30 million to produce, plus some hefty consideration for the musical talent. Ticket sales certainly didn't pay those bills: Only 190,000 of the \$135 passes were sold—and the host town of Saugerties, N.Y., got 4% of the take. Fewer than 250,000 cable customers, moreover, plunked

down \$50 to dig the concert in the mud-free confines of their own homes.

But corporate sponsorship and fees for on-site food and souvenir franchises brought in millions.



Official \$25 Woodstock T-shirt sold out. And there are still profits to be had. Look for a concert CD by October, a music video by yearend, a maybe a film down the road, says PolyGram. "Everyone very optimistic that this was a money-making event," says a spokeswoman. Peace, love and tie-ins, man.

By Julie Tilsner

coming up short. Thirty of the 178 companies that were high bidders failed to make their downpayments. As a result, the FCC says it expects to pull in only \$159 million—just 60% of the \$215 million it had counted on the auction to yield. The FCC's deadbeats will lose their licenses and pay penalties.

## A NEW BROOM AT THE TREASURY?

Call him the un-Altman. Low-key and apolitical, former San Francisco banker Frank Newman has been tapped to replace Deputy Treasury Secretary Roger Altman, who resigned on Aug. 17—a casualty of White-water. For the past 18 months, Newman, 52, has been toiling away in his non-flashy job as Treasury Under Secretary for Domestic Finance, dealing with public-debt management and banking policy.

Unlike Friend-of-Bill Alt-

man, Newman has no personal ties to President Clinton and no evident ambition to succeed Treasury Secretary Lloyd Bentsen. His main task: helping manage the department, something Altman rarely did. Newman's elevation could mean headaches for the financial services industry. He wants to extend to community-investment requirements on banks to insurance companies and mutual funds. Small banks also fear he may push to ease restrictions on nationwide banking.

## ET CETERA...

- Hasbro will consolidate toy operations, laying off 700 and taking a \$10 million hit.
- Let the computer price wars begin. Compaq slashes prices on PCs by up to 22%.
- Thinking Machines, admitting it has no white knight, filed for bankruptcy.
- It's official: Anheuser-Busch wins sole beer ad rights for the 1996 Summer Olympics.

## CLOSING BELL

### WHY THE STOCK IS CALLED "BEAR"



Vermont Teddy Bear couldn't have picked a less auspicious stock symbol than BEAR. After going public at 10 last November, the mail-order marketer of pricey ursine cuddlies saw its stock zoom to 16¾. But it has been, er, a bear market ever since. Shares hit 5¼ last week after the company posted a \$78,000 second-quarter loss. What has gone wrong? Not a thing, says the company, which claims the loss was caused by higher expenses as it moves into new markets and expands product lines. But with profits just 2¢ a share in the first half, even Barington Capital Group, the investment firm that brought Vermont Teddy Bear public, says it may pull back from its projection of 25¢ a share for the year.

DATA: BRIDGE INFORMATION SYSTEMS INC.



## FIDEL OPENS THE GATES, CLINTON COULD GET TRAMPLED

**A**fter six days at sea in early August with 18 other Cubans, Ramon Alexis Suarez is thankful to have made it to the U.S. But the 42-year-old refugee worries about his compatriots still trapped on Fidel Castro's island. "they can steal a boat," he says, "they will come." That spect may warm Suarez' heart, but it's giving the Clinton administration heartburn.

For good reason. Immigration, a hot-button political issue of the '90s, could well determine the outcome of races in voter-rich states such as California, Texas, and Florida. Packed

schools, overburdened public services, long unemployment lines have bred deep public resentment, new demands to curb benefits for aliens, calls to yank the welcome mat. The political climate is especially treacherous for President Clinton and Democrats in Florida, where anti-immigrant sentiment has been sparked by an influx of Haitians. Indeed, a desire to stem the flow of refugees is kind of talk of a U.S. invasion of Haiti.

**AGING LIGHTLY.** Now the situation in Sunshine State may explode. Casper, desperate to export his problems, is threatening to trigger mass exodus at a time when even Cuban-Americans have filled their fill of refugees. Worse, a new tide of Cubans would underscore the glaring inconsistencies in U.S. immigration policy: Legally obliged to accept all Cuban immigrants, Clinton has been turning away fleeing Haitians, a double standard that could undermine his support among black Americans.

The last thing Clinton and Florida Governor Lawton Chiles needs is another flood of Cubans like the 125,000 who came to Florida in the Mariel boat lift in 1980. "That would probably hurt Chiles's prospects for reelection," says Miami pollster Robert Joffee. If Democrat Chiles goes, Clinton, who lost Florida in '92, can kiss good-bye his dream of capturing the

state's 25 electoral votes, a key part of his reelection strategy.

Already this year, 6,200 Cubans have come to Florida, nearly double the 1993 total. But Clinton knows he must stem the flow carefully. The law allows Cubans who arrive on U.S. shores to stay. Repatriating refugees would inflame the exile community, a GOP stronghold that Clinton has been assiduously wooing. So the Administration is admitting Cubans who make it to the U.S. but is trying to make it harder for them to get here. Coast Guard patrols are seizing boats and detaining people suspected of trying to smuggle in Cubans.



HAITIANS AT GUANTANAMO: DOUBLE STANDARD?

**CONTINGENCIES.** For now, Cuban-Americans support that policy; they hope that keeping dissidents in Cuba will stir up the political pot and hasten Castro's demise. But sentiment could shift if Castro throws open the gates or if political turmoil erupts. The Coast Guard couldn't stop every boat speeding toward Cuba to pick up relatives. Contingency plans call for dispersing refugees to other states—hardly a popular solution. And there would be no way to stop them from migrating back to Florida to be near their families.

Clinton, whose vacillating foreign policy stewardship already invites unflattering comparisons to Jimmy Carter, could avoid such a dismal scenario by building bridges to Havana. Commercial and political ties would bolster the island's economy, foster reform, and encourage Cubans to stay put. "The cold war is over, and there are lots of countries less democratic than Cuba that we deal with," notes Wayne Smith of the Center for International Policy.

Don't expect better U.S.-Cuban relations soon, though. Any move to ease the embargo on Cuba would enrage Cuban-Americans. As with Haiti, Clinton appears more than willing to trade long-term foreign-policy objectives for short-run political gains.

*By Amy Borrus, with Gail DeGeorge in Miami*

### PITAL WRAPUP

#### THE WHITE HOUSE

**T**he Whitewater affair is a political plus for one senior Clintonite: new White House Chief of Staff Leon E. Panetta. Cocky Presidential aides, chastened by their recent grilling at congressional hearings, aren't resisting Panetta's management changes, say insiders. George R. Stephanopoulos, Clinton's inseparable aide, now reports to the staff chief, as does Panetta's predecessor, Thomas F. "Mack" McLarty III. He is spending his time working with business executives and Congress. Counselor-without-portfolio Bruce R. Lindsey is expected to leave next year to help run Clinton's reelection campaign.

paigned. Aides get less face time with Clinton, and reporters have less time to ask questions at photo ops.

#### TRADE

**T**he U.S. Trade Representative's Office seems certain to name Japan as an offender nation on Sept. 30 under the so-called Super 301 law, which targets countries for trade retaliation. Despite opposition from his economic advisers, President Clinton backs the bellicose move as a "mega-event" needed to jolt U.S.-Japan trade talks back to life. But the action would be largely symbolic. Sanctions could be delayed at least a year, giving trade negotiators time to cut a deal.

#### POSTAL SERVICE

**H**ow long will Postmaster General Marvin T. Runyon hang on to his job? Not long, if his support on the Postal Board of Governors keeps eroding due to unhappiness with Runyon's performance. Robert Setrakian, a Reagan appointee, had been alone among the eight board members in seeking Runyon's ouster. Now, Setrakian has an ally. Clinton appointee Einar V. Dyhrkopp says he will vote to dump Runyon at the board's Aug. 29 meeting. The other governors are likely to keep him—but on a short leash. Dyhrkopp says he would be surprised if Runyon stays beyond yearend.



## A RECOVERY THAT'S ALMOST SCARY

With growth so strong in Europe, many wonder: Can it last?

**N**obody expected Europe's economies to languish forever. But after the worst recession in 40 years, nobody expected them to rebound quite this high this fast, either. The second-quarter growth and profit numbers tell a story of surprising vigor, with unemployment forecasts creeping down and corporate earnings estimates creeping up all across the Continent. News this good is bound to make people wonder: Can it last?

In Europe's largest economy, policymakers are confident that the recession is history. German Economics Minister Günter Rexrodt is forecasting 2% to 2.5% real growth this year, double what the government expected as late as January. For once the bullish expectations

**PARIS BUILDING: HOUSING STARTS IN FRANCE ARE UP MORE THAN 20% IN THE FIRST HALF**

are more than political cant: Goldman, Sachs & Co. economist Joachim Fels, based in Frankfurt,

figures German gross domestic product grew at an annual rate of 6% in the second quarter, triple the first-quarter rate. Initially primed by exports to the U.S., Asia, and Latin America, Germany's recovery has broadened as lower mortgage rates and tax breaks stimulate construction. Germany's strength should have a spillover effect in neighboring economies—some of which have been overdependent on government pumping—priming—and a stronger Europe is likely to give U.S. corporate profits a second wind.

But heady growth rates make the inflation bears stand up snarling, and sooner or later, interest-rate increases are already being discussed in Britain. Worried central bankers are not the only potential threats to a long-term European boom. The drooping dollar is biting into profit margins on exports outside Europe. German consumers, who are already spending their savings, face steeper income taxes next year. And political uncertainties loom in all the major economies.

**EXPORT BOOM.** If you just go by the numbers, though, the good times do seem to be rolling. Germany's growth spurt has already enabled it to halt rising unemployment. Official statistics at Insee, France's government statistics office, recently doubled their forecasts for French GDP growth to 2% for this year. Italy's recovery, say Turin University economists, will create 200,000 new jobs in 1994 in autos and machinery, which are short on manpower after recessionary job cuts, and in the textile and clothing sector, which is riding the coattails of the export boom.

Signs of quickening growth are myriad. Construction sites in France are humming, with tax incentives driving first-half housing starts up more than 20% from a year ago. German machine-tool and machinery makers have booked over 40% more export orders this summer than last. Thanks to strong exports and booming tourism, Spain is adding 2,000 to 3,000 new jobs a day—in July it had the sharpest fall in its unemployment rate in 17 years.

Business leaders are amazed at the speed of Europe's pickup. "It's coming up faster than we thought," says Ford Treasurer David N. McCammon.



### EUROPE'S ECONOMY SHOWS MUSCLE

**GERMANY** Government expects 2.5% growth this year, double its January forecast, with eastern Germany growing by double digits. Latest machine-tool export orders zoom 44%.

**FRANCE** Housing starts soar 23% in the first half. Analysts forecast business investment will soon resume after two down years.

**BRITAIN** Second-quarter economic growth hits 3.3%, up from 2% a year ago. Exports, investment, and retail sales all growing.

**ITALY** Industrial production runs 5.3% over last year, with a 28% rise in autos pacing double-digit gains in metal products and leather goods.

DATA: GOVERNMENT STATISTICS, SALOMON BROTHERS INC., ING BANK



Motor Co. now expects auto sales in the overall European market to rise nearly 6.5% this year, to 13.3 million units. Archrival General Motors Corp.'s Opel unit is ramping up production of its small Corsa by 100 cars a day at its state-of-the-art plant in Eisenach, eastern Germany, to fill booming markets. Italy's Fiat, which normally closes plants for a summer furlough, has resumed producing models such as the small Panda at full tilt through August.

Risk sales are doing wonders for corporate bottom lines. In Britain, already in its second year of recovery, overall sales have soared 18% in the first half of 1994. Now, a slew of Continental companies from KLM Royal Dutch Airlines to human energy outfit Veba are joining the trend. And U.S. companies with big European operations are getting a boost in profits, now harder to come by at home. Machinery maker Caterpillar's non-U.S. sales rose 25% in the third quarter, enabling the Peoria, Ill., company to more than triple earnings, to \$240 million.

Years of restructuring are finally paying off for a growing number of companies. Dutch giant Philips Electronics reported up first-half net income of \$374 million, triple that of the year-ago period. Ford's European operations turned in \$1 million in second-quarter profits, up from a \$66 million loss last year. The anger balance sheets bode well for business spending. Salomon Brothers economist Jean-François Mercier presumes French business investment will rise 5% next year, following declines of 6% in 1993 and around 1% this year.

**MAKING.** Another symptom of high-growth is renewed activity in mergers and acquisitions. Philips and And-Dutch publisher Reed Elsevier PLC are both hunting in the U.S. And the U.S. dollar has not prevented U.S. companies from getting in on the act. Boston-based venture capitalist Adt International is scouring Germany for deals. Italy with \$600 million ready to invest. Now, Rockwell International Corp. is looking to buy the \$225 million semiconductor business of Britain's GEC Plessey Semiconductors Ltd. to supply chips for its growing automotive and avionics business in Europe.

Most Europeans want to believe this turnaround has staying power. "It would be a real financial cataclysm to halt the economic revival," says Albert Mercier, chief economist at French glassmaker Saint-Gobain. Actually, all it might be is a case of inflation jitters. But now, that seems as distant as last year's recession.

by John Templeman in Bonn, with Gail Mondson in Paris, Zachary Schiller in Ireland, and bureau reports



## BEIJING'S BROWNOUT

As power projects hit a bottleneck, foreign money may walk

A year ago, China looked like the El Dorado of the global power-supply industry. Goldman Sachs, American Insurance Group, and GE Capital were raising billions to finance its demand for electricity. Meanwhile, developers scrambled from one power-starved province to another signing huge deals. Hong Kong billionaire Gordon Y. S. Wu alone snared agreements for a dozen major projects.

That euphoria has faded. In early August, Wall Street greeted a public listing by Shandong Huaneng Power Development, a collection of existing power plants, with a shrug. Back in China, a squabble over how much foreigners should earn has left dozens of critical projects in limbo. Even Wu is threatening to walk away from a \$2.2 billion deal because officials won't allow him to make at least an 18% return on equity. "They still look at foreign investment as exploitation," fumes Wu.

It's not just foreigners who are viewed

with suspicion. Central planners also distrust the provincial officials who have signed many of the deals with foreigners. Beijing wants to maintain stable electricity prices and control inflation, but local governments need power fast—and are willing to pay high prices to get it.

Planners have picked a bad time to clog the electricity pipeline. Even as ministries hold up approval of more than 30 projects to build and operate major power plants, China believes it must add up to 15,000 megawatts of capacity annually for the next decade. That's about equal to two new conventional nuclear plants a month.

But foreigners may not stick around. While most investors seek at least an 18% return on investments in Chinese power plants, Beijing considers 12% to 15% to be adequate. Those rates have many balking. "Who is going to put [his] money into a plant with all of China's risks for a 15% return?" asks one Western banker. U.S. power-plant financing,



considered very low-risk compared with China, fetches an average 10% return.

Making things worse is the political tug-of-war between provincial officials and Beijing over who controls the levers of the economy. Many of the deals on hold were arranged by local governments—sometimes against the wishes of planners in Beijing. “The freewheeling provinces can be thorns in the side to them,” says James M. Polachek, senior East Asia analyst at Baring Securities Inc.

Moreover, Premier Li Peng, an engineer who formerly ran the Power Ministry, takes a strong personal interest in the industry. Last December, he helped pull the plug on a project set up by Goldman, Sachs & Co., which had arranged to buy with other investors a 30% stake in a new company of an existing power plant. Concerned that Goldman would make a windfall return of at least 25%, an angry Li intervened to stop the deal, say rival investment bankers in Hong Kong and New York.

What’s more, investing in China is looking riskier than ever. Fears of instability after the death of Deng Xiaoping, who recently turned 90, aren’t the worst of it. As part of the country’s financial reforms, Vice-Premier Zhu Rongji recently ordered the Bank of China to stop providing funds or guarantees to power projects in rich coastal provinces, on grounds that ample private capital was available.

More worrisome are changes in China’s foreign currency system. In the past, cities used foreign exchange holdings to service loans and pay for imported equipment. They even billed local factories in U.S. dollars. In April, China’s central bank regained control of foreign exchange. Trouble is, local companies have long had problems getting foreign exchange when they need it from Beijing-controlled banks. So Western investors are insisting the government provide long-term guarantees that utilities will be allotted enough foreign exchange to repay their debts. So far, Beijing has refused.

**COASTAL CRUNCH.** But the most frustrating problem is the bureaucratic gridlock as planners debate how to deal with foreign investment. For now, they aren’t focusing on the price of power and what types of fuel the plants will burn. In-

stead, “the Chinese are obsessed with the rate of return,” says one investment banker in New York.

The brunt of Beijing’s obstructionism will be felt in the booming coastal cities. A joint venture between General Electric Co. and Shanghai’s municipal power bureau to build a 400-Mw oil-fired plant has been waiting 10 months for Beijing’s go-ahead. “They needed the power this summer,” says Delbert L. Williamson, president of GE’s Industrial & Power

quired for foreign investments under \$1 million. Many earn returns of 20% to 25%. “We must be financing one of these a month,” says Michael G. Thresh, Hong Kong-based director of project finance for Standard Chartered Bank, one of a club of about 40 European and Asian banks that dominate financing of small plants.

**LACKLUSTER.** Some foreign developers advise concentrating on those tiny deals that escape Beijing’s scrutiny. “The bigger the project, the bigger the target for various people within China who can kill a deal,” says Shawn Cumberland, former partner of Denver-based Wing Group. He recently formed a Hong Kong-based company, ABC Development, to line up U.S. partners to focus exclusively on small plants. Meanwhile, Wing has been waiting about 18 months for Beijing’s go-ahead on a \$1-billion project in Henan province that would be 70% owned by a consortium of U.S. utilities and developers.

While small plants may meet immediate local needs, they’re regarded as expensive and wasteful alternatives to big projects. Despite the Street’s lackluster reception, the Shandong Huaneng listing a handful of other power companies with existing plants is likely to go ahead with offerings. That won’t be enough pay for China’s huge energy needs, though. As pressure mounts, some developers are betting Beijing will accept the foreigners’ terms.

There are signs the Chinese are getting the message. The Coal Ministry is negotiating with a U.S. consortium to build a \$900 million coal-slurry pipeline that would grant foreign majority control—and 20% rates of return. Ultimately, investors believe China will have grant sweeter rates of return and better operating climates. Beijing is moving “toward returns people feel they need,” says Thomas W. Widener, director of investment banking at Merrill Lynch.

Until then, Gordon Wu is looking elsewhere. He says he’s focusing on such power-starved countries as Indonesia where he recently signed a \$1.8 billion power project. Wu is pursuing an even bigger deal in Pakistan. Unless the ideological battles end soon in Beijing, money once earmarked for China may go to places less suspicious of foreign development.

*By Pete Engardio in Hong Kong, with Bruce Einhorn in New York*

## CHINA'S POWER PLAN

The government wants foreigners to fund power plants across China, but policy paralysis in Beijing has left many Western and Hong Kong projects in limbo



Systems unit for Asia. “We could still get it commissioned in six months if the paperwork came through now.”

Not that coastal cities will soon be left in the dark. As the big projects remain paralyzed in Beijing, small plants, typically with a capacity of 25 or 50 Mw and fired by imported diesel generators, are being built at a furious pace. That’s because Beijing’s approval usually isn’t re-

**“Who is going to put their money into a plant with all of China’s risks for a 15% return?”**



## IS ALGERIA ABOUT TO BECOME THE NEXT IRAN?

The bitter conflict between the military regime and Muslim militants seems to be pushing Algeria inexorably toward an Islamic government. That is a big concern for the West and its Arab allies. Experts think an Islamic regime in Algeria would have great influence on Tunisia, Egypt, and beyond, perhaps threatening the promising Arab-Israeli peace process. An Islamic Algeria or a civil war there would also be ominous for Europe. As many as 1 million "boat people" and other refugees could head for France, Italy, and Spain, by one estimate. Even if that number is exaggerated, a fundamentalist revolution just across the Mediterranean could cause a wave of xenophobia in Europe and strengthen extremists there.

Heading off such disasters has become a major preoccupation of Western diplomats. But there's deep division between the U.S. and ex-colonial ruler France over how to do it. The French back Algeria's military government, urging it to negotiate with Islamic groups unless they renounce terrorism. The fundamentalists' killing of five Frenchmen in Algeria in early August has hardened the French line.

**FOR YEN.** In France, officials have been rounding up suspected Algerian militants and closing their publications, risking a terrorist backlash. France is also pouring \$1.1 billion a year in aid into Algeria, hoping a stronger economy will defuse unrest. Paris shies its allies would also send money—especially Japan, Algeria's second-largest creditor. "We're frustrated that others won't help," says a French government official. Washington, once a backer of the Algerian regime, has switched course. Seeing that the militants may win, it has renewed contacts with them and is urging negotiations. "If there isn't a dialogue that draws in moderates, there will be a steady deterioration," says a White House policymaker.

Many experts concur. "The world can live with a fundamentalist Algeria," argues Dirk Vandewalle, a Mideast scholar at Dartmouth College who says Algeria's Sunni Moslem leaders are more bourgeois than Iran's Shiite mullahs. He notes that the fundamentalist Islamic Salvation Front (FIS) was about to democratically win power in 1992 when the military stepped in.

Not all agree. There's "no such thing as a moderate fundamentalist," says U.S. Mideast specialist Daniel Pipes, who complains that Washington is foolishly undermining the Algerians. Some analysts see a clash of economic interests behind the Franco-American schism. Algeria's fundamentalists resent French cultural influence in their country and would undoubtedly reduce business ties. The French suspect that the U.S. hopes to be favored with valuable oil-and-gas exploration rights if it builds ties to future rulers.

**FREE-MARKET FOCUS.** An Islamic Algeria would probably be firmly free market, in reaction to 34 years of inept socialism. "Our position is for a free-market economy. We are in favor of diversity," says Anwar Haddam, the FIS representative in the U.S. Western oil companies that were kicked out of Algeria in the 1960s



A RALLY BY THE ISLAMIC SALVATION FRONT

have moved back. Saharan oil fields still operate normally, guarded by troops.

But American pragmatism may be too late to have much impact. As time passes and their strength grows, fundamentalists have less reason to negotiate. They control most of the Algerian countryside at night. Government killings of some 5,000 opponents and many jailings haven't stopped them. Some segments of the army—Algeria's perpetual power broker—may be switching allegiance. It soon may be tough for any outside power to wield much influence.

*By Stewart Toy in Paris, with Amy Borrus in Washington*

### GLOBAL WRAPUP

#### ISRAEL CLOSES MARKET

Israel expected to get a big economic boost from its peace dividend with the PLO and Jordan. But it's in danger of squandering it through confusing economic policy. On Aug. 16, Israel's popular Finance Minister, Avraham Shohat, shocked the Israeli financial community by unveiling plans to introduce a 10% capital-gains tax on stock investments. Both he and Prime Minister Yitzhak Rabin had recently ruled out such a move. The new tax, apparently aimed at bringing Israel in line with Western economies, is likely to further shake investor confidence in the once-booming Tel Aviv Stock

Exchange, which is off 35% from its peak. To head off a selling spree, Israeli authorities ordered the market closed for two days.

Investor dismay was fueled by Shohat's admission that inflation for 1994 would be 14%—well over the government's target. "Instead of a peace dividend in Israel, just the opposite is happening," says Daniel Carasso, research manager at investment firm Furman Selz Inc.

On the positive side, economic growth is forecast at a respectable 5% next year, on top of this year's 5%. Shohat is also pushing some \$700 million in tax cuts for next year. Jacob A. Frenkel, the energetic central-bank

governor, wants to see even more tax cuts. With tax receipts running well over government projections, he may have a point.

#### MEXICAN ECONOMY TURNS UP

With the presidential election imminent, officials are trumpeting news of an economic recovery. After three quarters of shrinkage or sluggish growth, gross national product expanded 3.8% in the second quarter, compared with the second quarter of 1993, says the Finance Secretariat. Among the strong sectors were construction, agriculture, and manufacturing. Heavy pre-election social and infrastructure spending boosted growth.



BASEBALL

## IF YOU BUILD IT— IT MAY CRUMBLE

Even the strike may not help Skylands' Field of Shattered Dreams

**N**ot everyone is in a funk over the Major League Baseball strike. Suddenly, minor-league teams are getting the kind of attention usually reserved for multimillion-dollar power sluggers. And no one could be more pleased than Robert A. Hilliard. Talk about needing a hit.

Like the Kevin Costner character in *Field of Dreams*, the corporate dropout-turned-entrepreneur built a baseball diamond in a onetime cornfield, and a team did come to play: a St. Louis Cardinals' farm club that was drawing big crowds even before the strike.

But Hilliard's diamonds-are-forever dream has turned into something of a business nightmare. Little more than two weeks before the June 16 season opener, Hilliard's publicly traded Skylands Park Management Inc. filed for Chapter 11 bankruptcy. Fans who come to see the Class A New Jersey Cardinals at Skylands Park in rural Sussex County, N.J., are often amazed to see building materials strewn about the site, portable toilets, and unfinished luxury boxes boarded up with plywood. "Before you walk through the gates, it's essentially a construction site," says Robert E. Nies, an attorney with Wolff & Samson, which represents Skylands.

**PSYCHIC INCOME.** Hilliard, who as president of Skylands hasn't drawn a salary this year, lacks the \$2.3 million he needs to put the finishing touches on his dream. The company, with debts and liabilities of \$5 million, has lost more than \$500,000 since its inception. Skylands stock, traded on NASDAQ's small-cap market, is currently at \$2.13 a share, down from a peak of \$3.88 in mid-February. Now, Hilliard is hoping to coax existing warrant holders into dishing out \$14.2 million for more stock to bail Skylands out of bankruptcy.

What kind of investors would have

the stomach for such a risky proposition? Hilliard and his colleagues may be hoping that baseball diehards will look past potential monetary rewards for the more psychic income of having a stake in the great American pastime. "A lot of people want the thrill of owning a baseball team," says Barry J. Gordon, who heads investor groups that own the New Jersey Cardinals and the Class AA Albany-Colonie (N.Y.) Yankees.

Wishful thinking when your team is



HILLIARD MAY HAVE TO WALK IF HE CAN'T RAISE MORE FUNDS

behind in the ninth with two outs and a pair of strikes? Hilliard, not surprisingly, doesn't think so. A former marketing executive for consultant Booz, Allen & Hamilton Inc., he has long been a rabid baseball fan. When the chance came to have his own team in early 1991, he joined a group of investors to buy the Hamilton (Ont.) Redbirds for \$746,000.

His plan was to move the team to a new stadium not far from his home in Vernon, N.J., about 45 miles northwest of New York City. The sports complex he envisioned would provide plenty of entertainment in an area where there was virtually none.

Rather than get entangled in the politics of arranging public financing for

the 4,200-seat complex, he chose to make it the only shareholder-owned stadium in the minors, raising \$5.7 million in a public offering in September, 1993. Hilliard also lined up a commitment for a \$3 million loan from a consortium of banks.

Last October, Skylands Park bought 28 acres of farmland in Frankford Township and began clearing the property. An exceptionally bad winter, however, caused construction delays and cost overruns that led the banks to withdraw their loan commitment. Skylands ran out of money, and by early April, the contractors had walked off the job.

To save his season opener, Hilliard sold his stake in the team and lent Skylands \$100,000 to pay for construction work. Two other principal owners of the team sank in an additional \$250,000. Skylands Chairman Fred Voight borrowed \$200,000 from his mother and stepfather. But the cash couldn't keep Skylands from declaring bankruptcy.

**WRONG TURN.** Did Hilliard's gung ho enthusiasm get in the way of good business sense? He insists not. But he concedes that he had reached a preliminary agreement to raise \$4 million from state Economic Development Authority bonds when he took the company public. He chose to go with the bank loan because Skylands wouldn't have to pay any interest charge until the loan was drawn down. In retrospect, Hilliard says, it was the wrong decision. The bank loan had 71 different terms attached to it. The bonds could have been money in the bank. "We've had some problems," he says. "We've made some mistakes."

Hilliard notes that the Cardinals' average draw is more than 4,100 fans a game, the best attendance record in the New York-Penn League, and the strike is filling more of the stands. The team, moreover, is at the top of its 11 team division. And to generate more stadium revenue, Hilliard is also booking concerts and wrestling matches, as well as high school and college baseball games. Hopeful that the upcoming sale of warrants will be successful, attorney Nies believes Skylands can emerge from bankruptcy by yearend.

Maybe. But this is one *Field of Dreams* that will have to hustle for Hollywood ending.

By John A. Byrne in Frankford Township, N.J.

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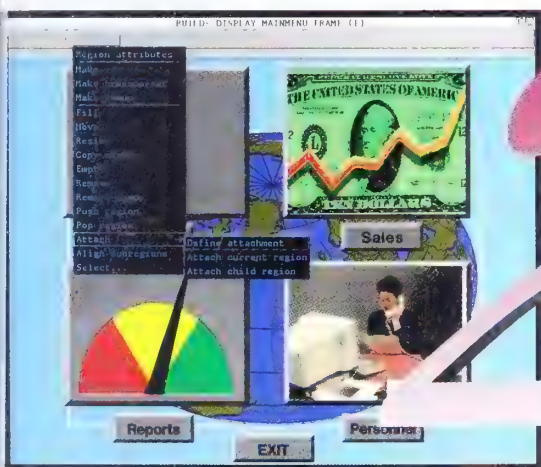
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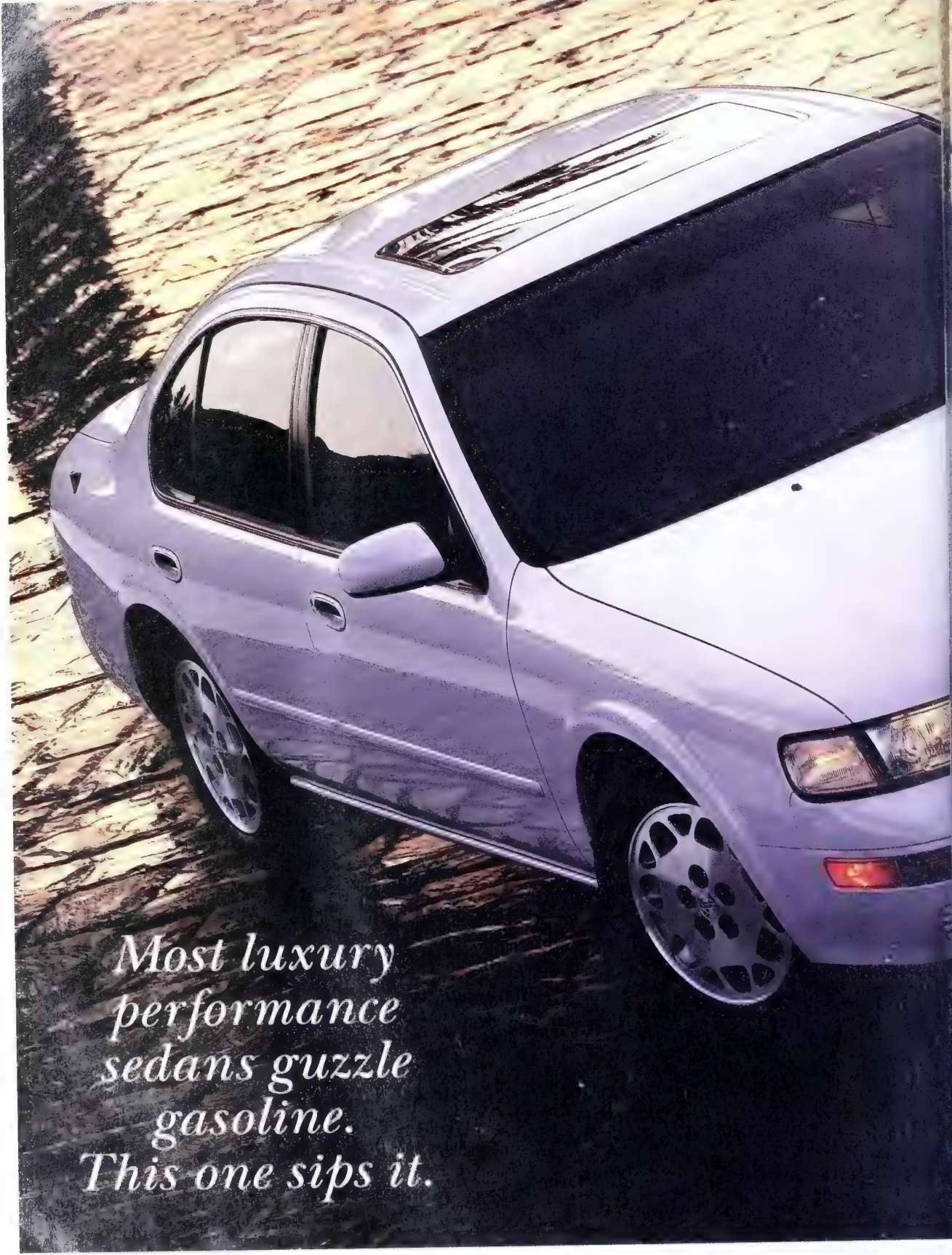
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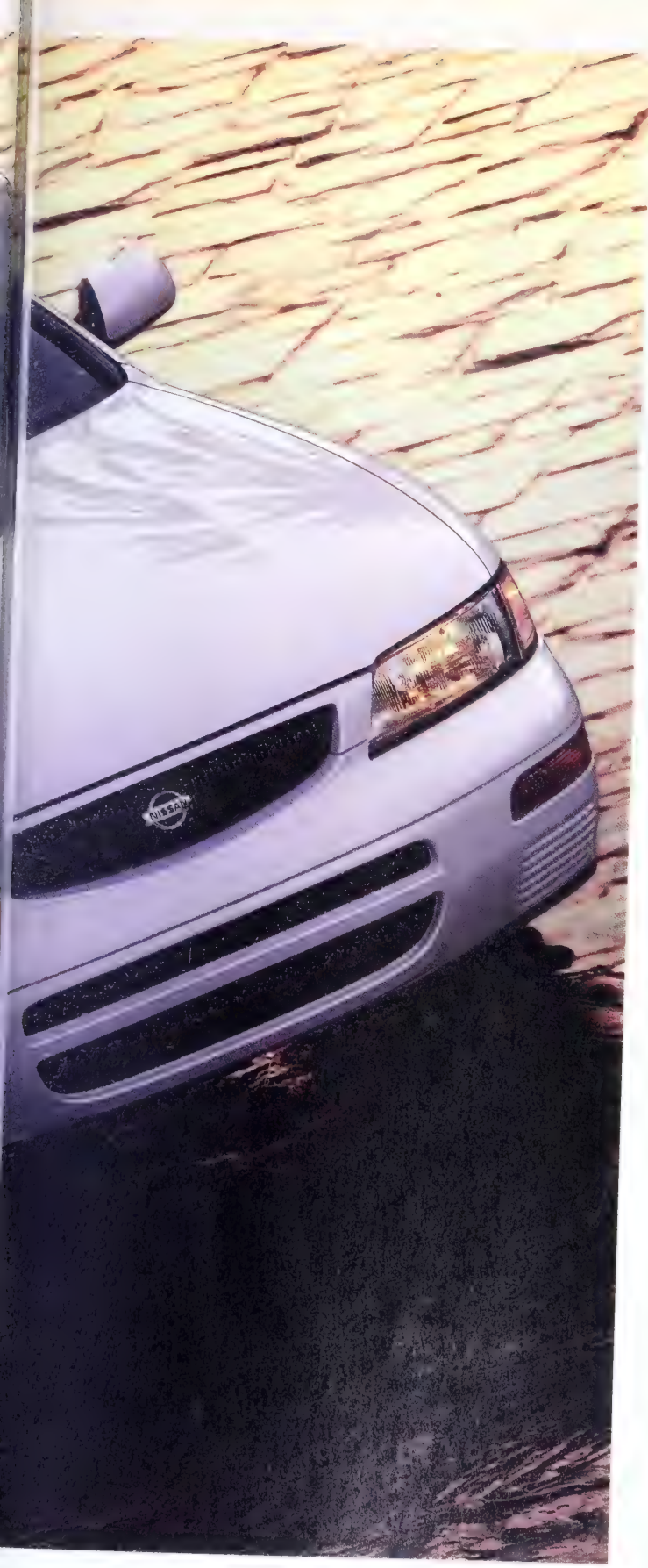




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# DREAM TEAM

**JOHN MERIWETHER'S BRAIN TRUST MADE BILLIONS AT SALOMON. CAN THEY DO IT ON THEIR OWN?**

**C**ompared with the frenetic bullpens on Wall Street, what passes for a trading floor at Long Term Capital Management LP is decidedly serene. Sailboats glide gently by the floor-to-ceiling picture window overlooking Long Island Sound. Half a dozen traders in golf shirts and loafers sit at a sleek, semicircular trading desk equipped with computers and chairs for 14. Envision the trading rooms at Morgan Stanley or Goldman Sachs, crowded with bellowing young traders in Hermes ties. Then forget them. Here in Greenwich, Conn., conversation is held in civilized tones. Everyone is usually sitting down.

The frenzied activity that does take place at Long Term Capital is inside the minds of the men gathered around the firm's trading desk. Some of them were trained as economists. Others are experts in mathematics and computers. This group, which is being closely watched by Wall Street, pioneered the art of computer-assisted bond trading: the complex, highly intellectual marriage of math, finance theory, and market smarts. While others use intuition to try to outguess the Fed or react to the consumer price index, these guys use computer-generated models to predict tiny but enormously lucrative discrepancies in bond prices.

They're no strangers to Wall Street. On the contrary, behind the firm's prosaic name and its unlikely address loom some of the most productive bond traders ever to place a buy order. A year ago, most walked the floors of Salomon Brothers Inc., Wall Street's savviest trading firm. But one by one they left, gut-

ting the source of Solly's biggest profits: its legendary bond arbitrage group.

Now, they've reconvened around Long Term Capital's trading desk. Here you'll find Lawrence E. Hilibrand, 35, the reclusive trader whose market prowess earned him a cool \$23 million at Salomon in 1990. Next to him is 41-year-old Eric R. Rosenfeld, the laid-back former Harvard business school professor who was a member of Salomon's executive committee before he bolted. Gregory D. Hawkins, 41, and William S. Krasker, 42, both former Salomon traders and economics PhDs from Massachusetts Institute of Technology, sit nearby. They and their colleagues raked in a staggering \$3 billion in pretax trading profits at Salomon between 1990 and 1992.

**CULT-LIKE DEVOTION.** They've been joined in Greenwich by David W. Mullins Jr., the former vice-chairman of the Federal Reserve Board. Another partner is former Stanford scholar Myron S. Scholes, who some believe will win the Nobel Prize in economics for his work on the pricing of options. Harvard B-school professor Robert Merton rounds out the group. He's an expert on derivatives and financial risk management.

The obvious question is why this financial brain trust has forsaken Wall Street and Cambridge for a leafy Connecticut suburb. The answer lies in the presence of the intent, rather ordinary-looking fellow sitting at the desk's far end. John W. Meriwether, the 47-year-old former vice-chairman of Salomon, is an unlikely piper. But he enjoys devotion from this band of intellectuals that has the makings of a cult.

A legendary trader in his own right,

## DAVID W. MULLINS Jr.

Resident expert on financial crises. Former vice-chairman of the Federal Reserve and Assistant Treasury Secretary, co-wrote the Brady Report on the crisis of '87. PhD in finance from MIT. Age 46.



## RICHARD F. LEAHY

Marketing chief and point man on relations with Wall Street firms. Former Salomon derivatives and mortgage-backed securities trader. Partner in Irish golf course and racehorses with Meriwether. Age: 46.



**RENCE E. HILIBRAND**

in U.S. and European bonds. d Salomon's arb group and sat on ive committee. At 27, was est managing director. Masters in nics from MIT. Age: 35

**JAMES J. McENTEE**

Old-fashioned short-term bond trader who keeps pulse of the market. A former bartender who sold his own bond firm for a bundle, then traveled the world. Nicknamed "the Sheik." Age: 47

**MYRON S. SCHOLES**

Expert on gauging risk. Handles relations with strategic investors. Stanford professor who co-authored seminal Black/Scholes theory of options pricing. PhD from University of Chicago. Age: 53



**LAM S. KRASKER**

of research and chief model er. One of the former "arb boys" at ion. Taught at Harvard B-school University of Michigan after getting hD in economics from MIT. Age: 42

**GREGORY D. HAWKINS**

Trades mortgage-backed and emerging-markets securities. Another of Solly's "arb boys." Helped run Clinton's Arkansas attorney general campaign. PhD from MIT. Age: 41

**ERIC R. ROSENFELD**

Trader in U.S. bonds and Japanese warrants. Salomon arb who also headed government bonds. Sat on Solly's executive committee. Co-founded the precursor of Lotus Development. Age: 41



Meriwether recruited many of them to Salomon in the 1980s and showed them how to earn millions by applying their brainpower to the bond market. "They love the guy," says Craig Coates, a former government-bond trading chief at Salomon. "They worship the ground he walks on." But in August, 1991, Meriwether resigned from Salomon in the Treasury-bond bid-rigging scandal that claimed Solly's CEO, John H. Gutfreund, and president, Thomas W. Strauss. After 2½ years and \$50,000, he settled with the Securities & Exchange Commission and was largely exonerated (unlike Gutfreund and Strauss). But he couldn't reconcile with Salomon's new management and, much to the chagrin of his patiently waiting traders, he never returned to the firm.

Instead, J.M., as Meriwether's friends call him, has gathered his dream team to help orchestrate the biggest gamble of his life. He is out to show that with only 11 partners, \$10 million worth of computers, and

## AULD LANG SYNE

David Mullins left the Fed to join Long Term Capital because he wanted to work with his old buddies from MIT. He also admired Meriwether's ability to corral risk. "Risk management is the key to success," he says.

\$1.25 billion in capital, he can earn the same remarkable returns that his group turned out at Solly—a firm that supported them with a \$175 billion balance sheet and resources the world over. Clearly, Salomon Brothers misses him already: So far, the firm has lost \$371 million pretax this year and its proprietary trading profits have dwindled (page 61). But whether Meriwether can withstand the ill winds blowing through the bond markets without his former employer's clout is a wide-open question.

In a series of interviews with BUSINESS WEEK, Meriwether denied that he harbors any bitterness toward Salomon. Indeed, he still trades with the firm. "I was in the wrong place at the wrong time," he says plainly. "If you are in

Alaska and you look to the right and see a bear cub and look to the left and see a mother bear, that's exactly how I felt. There's no weapon that will prevent you from going down." He insists, however, that his new firm can succeed on its own. "For what we do," he says, "this organization may be better."

Long Term Capital is a hedge fund: it buys long and sells short using money raised from institutions and well-heeled private investors (\$10 million is the minimum investment). But instead of making big bets on sweeping movements in currencies and foreign bond markets like fund operators such as George Soros

billion. James E. Cayne, chief executive of Bear, Stearns & Co., is one individual investor who plunked down at least \$10 million minimum to join the fund. "There's no such thing as 'the fee's too high' if the returns justify my investing," Cayne says.

Sources close to the fund say that Long Term Capital has posted returns of 15% since Meriwether launched it in February—despite the jarring increase in interest rates. As the name suggests, however, long-term results are what counts. If Meriwether can earn the average 30% annual returns that these sources say he projects, his success could well usher in a new computer age on Wall Street. If profits would also raise anew a question that continually plagues the Street: Is the something-for-everything, high-overhead Wall Street firm really just an efficient anachronism?

Meriwether will miss the security of Salomon's deep pool of capital, not to mention its huge staff and marketing clout. Even as a hedge fund, Long Term Capital is no giant. Meriwether's idea is to combat the size problem by creating a "virtual" trading firm. He figures intellect and computer trading strategies comprise his most important proprietary assets. What other services he needs, he is contracting on. Bear Stearns, for instance, is providing securities clearing, and Merrill Lynch & Co. has helped to recruit investors.

**GLOBAL REACH.** Capital, indeed, is his biggest need.

Besides the money from institutions and wealthy investors raised by Merrill, Meriwether is striking deals with "strategic investors" worldwide, according to a prospectus obtained by BUSINESS WEEK. Mainly, they are foreign financial institutions that can tap into Long Term Capital's trading expertise in return for anything up to an average \$100 million each. Those firms can also provide local expertise when it comes to foreign investments and markets. And they can use connections to raise cheap local capital. "They can be our window," Meriwether says. "We want to be global, and we want to have an ability to employ technology in any country in the world."

So far, Julius Baer & Co., a prestigious Swiss bank, Merrill Lynch, and for



and Michael Steinhardt, Meriwether sticks largely to a computer-assisted bond strategy called "convergence trading," which plays the thin spreads that emerge in turbulent times between the values of various types of bonds.

Other traders use this quantitative approach. But never has this much academic talent been given this much money to bet with. Despite an unsettled bond market, big losses at other hedge funds, and Long Term Capital's lofty fee structure, Meriwether has been able to trade on the group's outsize reputation to raise \$1.25 billion from investors, according to sources. That has turned Long Term Capital into one of the world's largest hedge funds overnight, with a leveraged balance sheet of \$15



# HOW TO MAKE \$275 MILLION IN THE BOND MARKET

ields for different types of bonds have historical relationships to each other. In turbulent times, those relationships get out of whack as some bonds become undervalued relative to others. Meriwether's traders use computers and economic models to find and exploit these anomalies. Here's an example.

**THE OPPORTUNITY** Historically, mortgage-backed securities yield 1.0% above Treasury bonds because they are more risky. But in late 1988, Larry Hilibrand and Greg Hawkins, then Salomon traders, noticed that because of worries

about the mortgage market, mortgage-backed prices had declined relative to Treasuries, widening the spread to 1.5%.

**2 THE BET** That eventually, mortgage-backed prices would regain their historical value vs. Treasuries by increasing in price, reducing the spread back to 1.0%. Even a small shrinkage in the spread would have an enormous impact on the price of the mortgage-backed.

**3 THE STRATEGY** Buy mortgage-backed, and short-sell Treasuries as a hedge. That way, no matter what interest rates did, Salomon would earn more interest on the higher-yielding mort-

gage securities than it would have to pay out in interest on the shorted Treasuries. And when the spread narrowed as expected, the value of the mortgage-backed would rise more—or fall less—than that of the Treasuries.

**4 THE DANGERS** There are two. First, if the market for mortgage-backed tanked, the spread would widen disastrously. That would be highly unlikely, but not impossible. Second, if interest rates went down a lot, mortgage holders would prepay their mortgages, decreasing the value of the associated securities.

**5 THE TACTICS** Buy \$5 billion worth of mortgage-backed yielding 10.5%. Short-sell \$5 billion worth of Treasuries at 9%.

To hedge against prepayments, buy interest-rate options costing 0.5% of the value of the mortgage-backed, or \$25 million.

**6 THE PAYOFF** Every year for three years, the mortgage-backed earned \$75 million more in interest than Salomon had to pay on the Treasuries. But the prepayment hedge cost \$25 million. Profit: \$150 million. When the spread narrowed to 1.0%, Salomon covered its short position and sold its mortgage-backed. Each \$1,000 bond had risen \$25 more than Treasuries, for a \$125 million gain. Total profit for the trading strategy: \$275 million.

ers have signed on. Raymond Baer, a member of Julius Baer's management committee, says access to Long Term Capital's technology was too good to let it go. "It's not an intellectual approach that has to prove itself. They've usually done it already [at Salomon]," says.

Still, the risks are enormous. Meriwether's record through the 1990s benefited from a friendly interest rate environment that has evaporated. Moreover, Long Term Capital's strategies require large chunks of patient capital to pay off. Meriwether's traders exploit all movements in spreads that often take years to develop. Even with a happy lineup of strategic partners, betting on the scale this setup has been used to will be impossible. "At Salomon, you just do as much as you can do because you're Salomon," says Stephen Modzeleski, the former research director for Meriwether's group and now with The Intermark Group fund. "That's harder to do in an investment vehicle."

**DE SWINGS.** Worse yet, the fits for a fund like this oscillate drastically. Prices say Long Term Capital has warned investors to expect swings as high as 50% and as low as -20% in a given year. When you confer with Michael Steinhardt this

year lost \$1 billion over the course of a week, you can see how volatile these markets can be. "There are times when these strategies go very badly, and you have to take the heat and not unwind at the wrong time," says former Salomon trader Coates. "The question is, will clients understand that?"

Managing close relationships is Meriwether's strong suit. It always has

been—despite the common perception of him on Wall Street as a swaggering, '80s-type Master of the Universe. Since Meriwether jealously guards his privacy and rarely talks about his trading activity for competitive reasons, the one glimpse most people have of him is the portrait drawn by Michael Lewis in his 1989 book *Liar's Poker*. There, he epitomized Salomon's macho culture as he stared down his former boss—John Gutfreund—in a \$10 million game of liar's poker (a betting game involving the serial number on a dollar bill.)

Meriwether insists the story is apocryphal. More accurate is Lewis' observation that "Meriwether cast a spell over the young traders who worked for him." Most of his followers are at a loss to explain just what his charisma consists of. But

## AT THE CREATION

As Meriwether's first recruit, Eric Rosenfeld helped his boss envision the new firm and set up the new technology. "We rebuilt all of our models from scratch after we left Salomon."



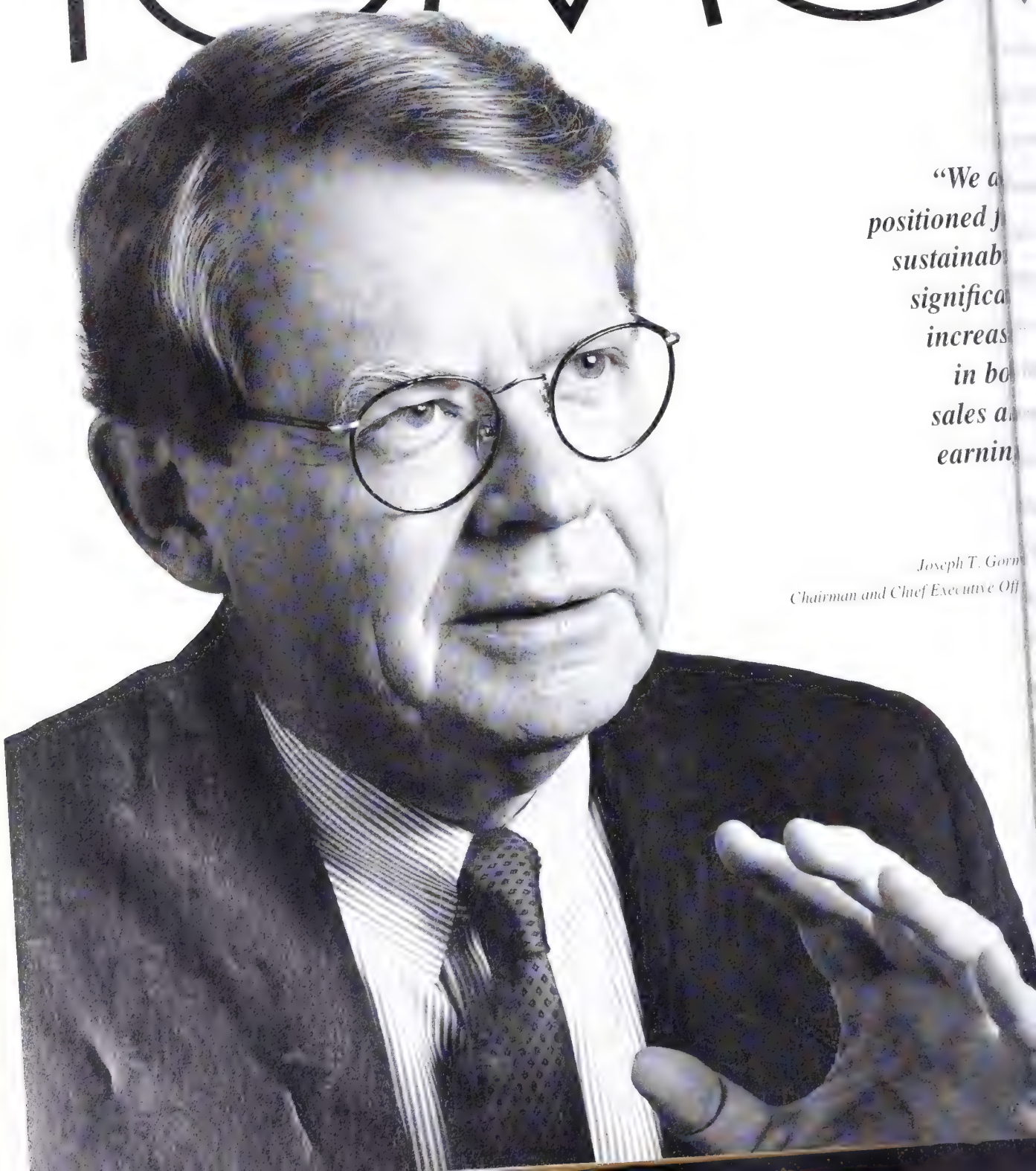


TRW Today

# TOMORROW

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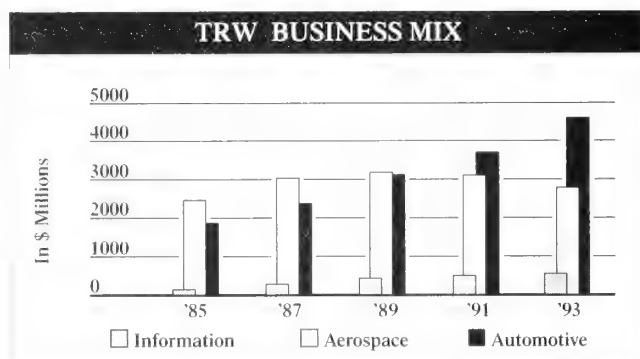
# TRW IS HERE

We used to say "Tomorrow is Taking Shape at a Company Called TRW." While TRW has been helping shape our world, we have also been working hard to online and strengthen our company.

We have set a course that aims to delight our three constituent groups – customers, shareholders, and employees – by providing each with superior performance. The facts demonstrate we are doing just that.

Several years ago, we set for ourselves some tough objectives. We are meeting those objectives. Today, we number one in our key markets. We are the world leader in occupant restraints, in steering systems, in automotive electronics markets, in advanced space-technology, in defense communications, and in consumer credit information, among others. We are the world leader in complex systems integration. Our businesses are in segments of industries that are growing the markets themselves, and we are managing growth for profit. Cost structures have been improved dramatically, and we are beginning to experience the benefits of our strategic investments over the past five years. Further, technology leadership, always a core

TRW strength, is now helping to make us more competitive in all of our businesses.



TRW aerospace technology is contributing to the rapid growth of TRW's automotive business.

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it seems to boil down to this: In a Wall Street world of pretension and swagger, Meriwether quietly showed his band of nerdy intellectuals that intelligence still carries the day. He believed in their abilities and taught them to turn their abstract theories into piles and piles of money. "He has a tremendous belief in investing in people and investing himself in training others," Hilibrand says.

Meriwether grew up on the South Side of Chicago in the kind of extended Irish family where four cousins lived across the alley, and it seemed as though everyone on the block was somehow related. His father was an accountant, and his mother worked for the

to change the investment landscape dramatically.

In a move that was unheard of at the time, Meriwether began hiring young, gifted academics schooled in what was then arcane financial theory. He brought them onto the trading floor and taught them about the markets. Before long, others at the firm were complaining that this quirky, secretive group was tying up the research department mainframe for 24 hours at a time. But the quantitative approach gave Salomon a huge leg up. While the group sometimes lost hundreds of millions in a quarter, it often accounted for as much as 90% of the firm's profits in a year.

The computers capture that behavior and allow the group to build models to help them predict future movements. With that knowledge they can accurately play the spread between various securities. It boils down to managing risk. "These models enable us to pursue a large position without a severe concern that our strategies are very exposed to interest rates or yield-curve changes," says Hilibrand.

As an example, take a troublesome characteristic of mortgage-backed securities: When interest rates drop substantially, homeowners often prepay their mortgages underlying a bond. This changes the bond's economics and reduces its value. The trick is to figure out precisely how much value it is likely to lose so that if you hold that bond you can design a trading strategy that includes the appropriate hedges (offsetting trades that act as insurance against losses). If you hedge appropriately, it's harder to lose money if prepayments

## CRUNCHING BITS

"We're not just a fund. We're a financial technology company," says Myron Scholes (right), who is focusing his bits and bytes on valuing options. Bob Merton's expertise runs to derivatives.



Board of Education. John was fascinated by two things: golf and the markets. At age 12, he began investing the money he saved from caddying at nearby Flossmoor Country Club. A competitive golfer in high school, he twice won the Chicago Suburban Catholic League golf tournament.

Meriwether went on to Northwestern University on scholarship and did a short stint as a Chicago public school teacher before getting his MBA from the University of Chicago. In 1974, at age 26, he landed a job at Salomon and packed up for New York. By 1977, he was already making his mark as a crack trader, and he was allowed to establish a small bond-arbitrage group to trade the firm's money. By the early 1980s, he began to see that the emerging markets in futures and options were beginning

The trouble with explaining what these PhDs do is that it takes a PhD to understand it. An example helps (page 53), but you need some background. Meriwether's forte is a sophisticated form of interest-rate arbitrage he calls convergence, or "relative-value," trading. Instead of a simple bet on whether interest rates are headed up or down, his group uses computers to identify disparities in the yields of various securities whose values fluctuate in relation to Treasury bills. Usually, those relationships are stable, but in turbulent times, they can become skewed. That creates bargains.

**PRECISE GUESSES.** The computers tell Meriwether's traders exactly how cheap those bargains are, based on historical price data. How? Under different circumstances over time—usually swings in interest rates—bond prices fluctuate.

occur. And that allows you the confidence to take a bigger bet. Computers provide that precision.

Because these traders bet on minute movements in spreads, they have put a lot of money on a position to make any substantial profits. Consequently, if things go wrong—and often, they do—hundreds of millions in losses can pile up quickly. Meriwether's great trust in his team to take those risks is part of the reason they revere him so.

It doesn't hurt that he pays them bonuses—even by Wall Street standards. Indeed, a deal he cut with Gutreund in 1989 to pay his group 15% of their profits caused a storm of protest within the firm, insiders say. But his followers insist that Meriwether's charisma has more to do with the respectful, collegial atmosphere he creates than anything

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*Road & Track/August, 1993*

"The Supra Turbo is an absolute beast."

*Automobile Magazine/April, 1993*

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*Car and Driver/September, 1993*

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*Road & Track/August, 1993*

"Supra Turbo is the MVP (Most Valuable Performer) of the Automotive Dream Team."

*Motor Trend/August, 1993*

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*Motor Trend/August, 1993*

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*Motor Trend/August, 1993*

"...could be history in the making."

*Road & Track/March, 1993*

"A world beater."

*Car and Driver/September, 1993*

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And Crossed The Line.

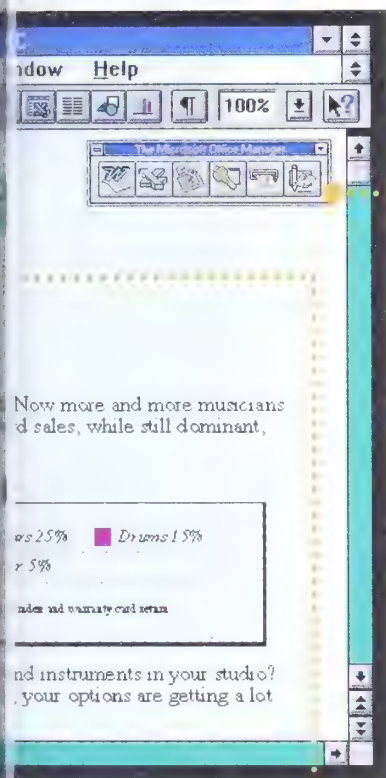


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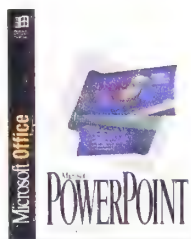
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click moves your  
data into the presen-  
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gram. And it helps  
you organize your  
thoughts, design lay-  
outs, even rehearse.*





else. He's no dictator. He encourages open debate on trading and risk-management strategies.

He's also there when they need him. When the stock market crashed in 1987, the arb group saw their profits for the whole year wiped out in two days. "I still remember sitting at the desk and wondering about the end of the whole financial system," says Rosenfeld. Meriwether calmly called his group into a meeting and "questioned you to the 10,000th detail about your positions," Rosenfeld recalls. It took most of the night, but the boss had each of them cut their losses and build new positions. **"FAIRLY SHY."** Meriwether is gregarious with his friends but doesn't like being drawn into the open. That was the most painful part of the bond scandal.

"I'm a fairly shy, introspective person," he says. "But I became front-page news." He may enjoy the power that accrues to someone as successful as he is, but part of what attracts people to him is his ordinary-guy personality. Until he married his wife, Mimi, in 1981, Meriwether lived in an apartment on Manhattan's Upper East Side with two buddies for roommates. Every day at Salomon, lunch was a bologna-and-white-bread sandwich (without mayo), eaten at his desk.

Meriwether does have his extravagances. Horses, for one. He and Mimi—a former Olympic-level equestrian—keep several riding horses at their home in Westchester County. And John spends plenty of time with partners and friends at Saratoga and Belmont, where he boards several racehorses. Then there's golf. Despite memberships at three of the U.S.'s toniest country clubs—Winged Foot and Shinnecock in New York and Cypress Point near Pebble Beach, Calif.—Meriwether and several partners own a top Irish golf resort called Waterville. Often, he jets over for a weekend on the links with old friends or colleagues from Long Term Capital.

On a whim during one such trip several years ago, Meriwether bought all 12 lobsters on display at a restaurant near Waterville and set up a race on a table. He taped numbers on their backs, and as his friends placed bets, Meriwether called the race like he was the track announcer. For some of the tweedy intellectuals in his group, all the sporting activity is something new. When Meriwether tried to teach Scholes to play golf, jokes

James McIntee, a veteran bond trader who likes to rib his academic associates, "Myron read 100 books about it to figure out the physics of the swing."

Meriwether recalls with a shudder the days when the bond scandal unfolded. "It was surreal," he says. "The world had gone crazy from one day to the next." In April, 1991, Paul Mozer, the head of the government-bond desk, told Meriwether that he had submitted a false bid in the Treasury Dept.'s auction. Meriwether told Mozer his actions were "career-threatening" and immediately reported the transgression to Gutfreund and Strauss.

The matter exploded on Aug. 16, when Gerald E. Corrigan, the governor of the New York Federal Reserve, forced Gutfreund and Strauss to resign.

J. Haghani, other traders. All of them insist they hold no grudge. "I spent most of my life there, and I can't help but look back and say thank you," Meriwether says.

Sources familiar with the fund that together, J.M. and his partners have invested \$149 million of their money in Long Term Capital, the majority of their net worth. And over a short lifespan, the fund appears to be prospering. Its 15% rate of return since February is strong, given that even one from Salomon to Soros has been battered by the quick rise in interest rates. Meriwether will not talk about his current positions, but the source says market volatility has produced a number of mispricings of which Long Term Capital has taken advantage.

The trick has been betting on the direction of interest rates but, as usual for Meriwether, setting up hedge strategies to capture spread in yield between different securities affected by rates. Long Term Capital has been long on mortgage-backed securities—which have been driven down by interest rates and the fear that market leader Kidder, Peabody & Co. will dump its huge inventory. And they are short offsetting securities. They also have hedged positions in the major European bond markets and in Japanese utility warrants, sources say.

But raising the remaining half of the \$2.5 billion he wanted still a problem. Not only is turmoil in the bond market spooking potential investors, but Long Term Capital's terms are stiff. Investors must lock up their capital for three years—an unusual restriction—and Meriwether is charged a 2% management fee (1% is the norm). Moreover, Long Term Capital will keep 25% of its profits, compared with 2% at most funds.

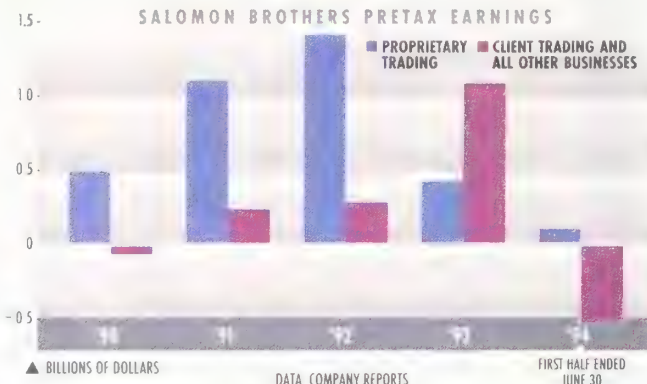
Meriwether is undaunted. He's bringing the bushes worldwide for nine months of strategic investors, with special emphasis on the Far East, where he has to find a partner. He also just held a training course in London for 20 freshly hired academics, including a PhD in astrophysics from Cray Research.

"I want to build a long-term franchise," says Meriwether. Without Salomon, that's a tall order. Independence has its risks, but J.M. and his dream team are betting the rewards will be a lot richer.

*By Leah Nathans Spiro in New York*

## SALOMON: WITH AND WITHOUT MERIWETHER

Meriwether left Salomon Brothers in 1991. His bond arbitrage group, which produced all of the firm's proprietary income, resigned in 1993.



At a set of highly emotional meetings, Salomon executives, including several Meriwether loyalists, fought furiously over whether Meriwether should resign as well.

Insiders say Meriwether's most powerful supporter was Warren E. Buffett, the billionaire investor who stepped in as CEO. But Meriwether had plenty of enemies within the firm who resented his arb group and their giant bonuses. Others thought that as Mozer's immediate boss, Meriwether could have prevented the scandal by firing Mozer in April. At 11:30 the next evening, Meriwether went to Buffett's Manhattan apartment and said he was resigning for the good of the firm. "He didn't believe I should resign," Meriwether insists. Buffett didn't return phone calls.

Whether Meriwether would return was an open question until 1993. When he didn't, his group had little reason to stay. In January, 1993, Rosenfeld quit, followed by Hawkins, Scholes, Krasker, Hilibrand, Richard F. Leahy, and Victor



# THE MAN WHO'S FILLING MERIWETHER'S LOAFERS AT SOLLY

There's no question it was a big blow. The departure from Salomon Brothers Inc. of John W. Meriwether in 1991 and his team of arbitrageurs in 1993 left a deep hole in the trading bench. Salomon tried to shrug off the loss. But cracks in the firm's performance are becoming more and more apparent. Earnings from Salomon's proprietary trading group, which trades for the firm's own account, have been lackluster for 1993 and the first half of '94. A lot of people inside and outside Salomon are asking an important question: Can the firm be as profitable as it was without the "arb boys"? The firm believes it can. "The impact of his departure is ultimately unknowable," Salomon responded in a written statement. "Using good people is never a plus; however, we do have a good team in place."

**DW SAG.** A centerpiece of the firm's post-Meriwether strategy is Dennis J. Keegan, a man who wears a grin every day and a bow tie every Friday. Keegan, who was promoted to head of Salomon's risk-management committee and co-head of the fixed-income department on Aug. 10, is a talented bond trader and a protégé of Meriwether. Last October, he replaced Larry Hilibrand, who is now working for Meriwether, as head of Salomon's bond arbitrage group. "I'm sorry they

left," Keegan says. "I still think we'll make a lot of money." There's not a lot of evidence of that far. After making more than \$1 billion in pretax in 1991 and 1992, the proprietary trading group—which was run by Meriwether and his associates—has lagged. Pretax proprietary profits dropped to \$416 million in 1993—low compared with the rest of the Street—down just \$93 million in the first half of '94. "I'm beginning to suspect that our loss of traders may have had

more of an impact than I originally thought," says Michael Flanagan, an analyst with Lipper Analytical Securities Inc.

Reducing Salomon's dependence on volatile proprietary trading is the main reason the firm is trying hard to remake itself. Salomon Brothers Chief Executive Deryck C. Maughan is bolstering customer businesses like investment banking and underwriting. But in 1994's first half, customer businesses generated \$464 million in pretax losses because the firm got caught with too many bonds that plummeted in value when rates rose.

In hindsight, some Wall Streeters

to fill that role. CEO Maughan is considered a skilled manager, but he's not a trader. Keegan got his bachelor's degree and MBA from the University of California at Los Angeles and then spent four years in the army as a tank platoon commander in Germany. He joined Salomon in 1980, spent three years trading foreign exchange, and moved to London in 1983. By 1988, with Meriwether's backing, Keegan set up a London-based bond-arbitrage business with Stephen J. D. Posford, a polished, well-connected Brit whom Meriwether hired. By 1992, Keegan and Posford had become co-CEOs of the London office.

The two men turned around Salomon Brothers' London office, which had been moribund for years. From 1989 to 1993, the unit had record profits, accounting for more than a third of the firm's worldwide earnings in 1992 and 1993.

Now, Keegan and his former mentor are competitors. Keegan and Meriwether do precisely the same type of trading, which relies on mathematical models to find mispricings in the bond markets. The Salomon bond-arbitrage group still numbers around 40 people and includes some PhDs from Massachusetts Institute of Technology. "We are looking at the same mispricings," acknowledges Keegan.

But he and Meriwether are still friends. In early 1994, Keegan

and some of his Salomon traders shared a game of liar's poker at Meriwether's Long Term Capital offices in Greenwich. They didn't talk business. "It's not as hard as you think because you're mutually happy not to discuss business," explains Keegan.

What did Keegan learn from Meriwether? "How to ask the right questions and always to hire people who are smarter than you are." Salomon Brothers hopes Keegan will do both.

*By Leah Nathans Spiro in New York*



"I'm sorry they left. I still think we'll make a lot of money."

**DENNIS J. KEEGAN** Head of bond arbitrage and co-head of the fixed-income department

believe Salomon made a huge blunder in allowing Meriwether and his followers to walk away in December, 1993. Salomon, still a bond-trading house at heart, was left without an experienced bond trader at the top. Says one former Salomon insider: "The benefit of having a John Meriwether or a John Gutfreund running the place is they can know when there's a problem. They can look at a trader in the eye and tell."

The firm sees Keegan as the person





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## TOO MANY PEOPLE?

The latest U.N. initiative goes way beyond birth control

In Tumuhun on Bali, 65-year-old Men Tunjung measures progress by the declining births in her family. One of 10 children, of whom 4 survived, she had no schooling, had five children, and labored with her husband in the rice fields. Her 40-year-old daughter, Jro Pasek, had more opportunity. She finished junior high and had just three children. As converts to Indonesia's family-planning program, moreover, Jro and her husband got a government loan to start a chicken farm. They earn \$2,100 a year—vs. the village average of \$175. Two of Jro's children are still in school, and 19-year-old Ayu Indrayani, a high school grad, is training to be a cashier. She plans to work, then marry—and have two or three children. Her grandmother approves. "Progress happens so fast," says Men Tunjung.

Millions of such families will be the focus when 180 nations meet in Cairo on Sept. 3 for the U.N.'s International Conference on Population & Development. The third such gathering in 20 years promises to be a watershed. For the first time, rich and poor countries may set aside ideological disputes and agree on a basic proposition: "Population growth exaggerates all the crises we are trying to cope with...lack of resources, limited educational opportunities, dearth of skills, poverty, and ill health," sums up Vice-President Al Gore.

**CULTURAL SHIFT.** In Cairo, the delegates intend to ink the most ambitious population plan ever: It calls for spending up to \$17.5 billion by 2000 in poor nations. In addition to providing family planning to 100 million women who want it but don't have it, the goal will be to create conditions that lead people to want fewer children. Thus, the U.N. plan aims to give girls more schooling, improve the health of infants and mothers, and open up economic opportunities for women.

In essence, the plan calls for a profound cultural shift that would enhance the social and economic status of women. It would do so by helping close a gender gap that has left women in poor coun-

tries lagging in health, education, workforce participation, and basic rights. Experience shows that better-educated women who earn incomes have children later in life, have fewer of them, and give better care and education to the ones they have. So the Cairo plan—combined with conventional economic aid from industrialized nations—should make it easier for developing nations to provide social services and generate jobs.

## A BOLD NEW AGENDA TO CURB POPULATION GROWTH

At current rates, the world population is projected to rise 48% to 8.3 billion, by the year 2025—mostly in developing countries. At the world population conference in Cairo, rich and poor nations seem prepared to hash out details of the most ambitious program ever to slow the increase. In a nutshell, here is the strategy:

In many ways, in fact, the initiative is a development plan with a human-capital focus. Poor nations now realize that spending on education and health can be as beneficial as investments in factories, says Allen C. Kelley, professor of economics at Duke University. As women offer a high return. In poor countries, they do 50% of the farm work and head about 30% of households. Their income is likely to go first for health care, schooling, and food for children. Therefore, advocates say, the focus on women should raise skill levels, boost productivity, and help the poor. "There's an economic cost to gender inequality," says Minh Chau Nguyen, a World Bank expert on the subject. "Paying attention to women is central to growth."

Despite the promised gains, the U.N. agenda raises alarms in some quarters. Its changes don't appeal to conservative tribes in Africa and Muslim fundamentalists in Asia, for instance. Some economists, meanwhile, see the plan as M-

## THE PLAN...



1 Provide primary education for girls. Improve opportunities for women to earn income, especially from cottage industries.

## ...AND WHY IT MIGHT WORK

As women gain equality, birth rates fall. The reasons are numerous: School delays marriage and children, and better-educated women are more apt to use contraceptives. They also have options in life other than child-rearing and their earnings make them more valuable outside the home.



an alarmism clothed in new rheto-  
 ulian Simon, a University of Mary-  
 economist, says the emphasis in  
 on curbing population deflects at-  
 tion from a more vital issue: imple-  
 ing free markets and other policies  
 let population take care of itself.  
 nd that, the Vatican is fighting lan-  
 e on abortion, the right of women  
 oose family planning, and birth con-  
 or adolescents.

**NERED PAST.** Still, proponents see  
 y of reasons to go forward. True,  
 l population is rising at only 1.6%  
 a the lowest since World War II.  
 s largely because fertility rates—av-  
 e births per woman—in China and  
 , among other places, have plunged  
 6 to 3.48 since 1960. Still, the num-  
 of women of childbearing age in  
 countries will rise 62% between  
 and 2000. By the projections the  
 considers most likely, world popu-  
 l will leap from 5.6 billion in 1992 to  
 7 billion by 2025—93% of those new  
 s in poor countries. That rise “will  
 population one of the most signif-  
 icant factors on the global scene for the

next 30 years,” says Joseph Chamie, di-  
 rector of the U.N.’s population division.

Developing nations will have trouble  
 coping. The 1992 Earth Summit in Rio  
 de Janeiro underscored the environmen-  
 tal damage that population pressures  
 can help cause. That can ruin a nation’s  
 chances to build industries based on nat-  
 ural resources and makes it more costly  
 to feed people. Cairo plan advocates, in-  
 cluding Timothy E. Wirth, Under Secre-  
 tary for Global Affairs at the U.S. State  
 Dept., group these concerns under the  
 rubric “human security”—or access to  
 water, food, shelter, medical care, and a  
 clean environment. When that’s lacking,  
 political instability and conflicts between  
 countries are possible. In a sense, then,  
 Cairo is part of “an emerging diplomacy  
 of crisis prevention,” says J. Brian At-  
 wood, administrator of the U.S. Agency  
 for International Development (USAID).

The anticipated consensus there will  
 be an exception in the history of the  
 population debate. Frequent clashes be-  
 tween rich and poor nations have cen-  
 tered on whether economic develop-  
 ment or family planning should take

priority, and how—and by whom—  
 schemes should be financed. In the  
 1980s, moreover, population programs  
 lost momentum as policymakers heeded  
 economists who argued that population  
 growth doesn’t hamper economic  
 progress. That view was confirmed in a  
 1986 National Academy of Sciences  
 study which found, among other things,  
 that improved technology for such jobs  
 as food-production largely offsets the  
 effects of rising population.

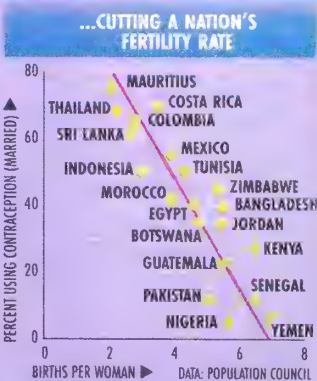
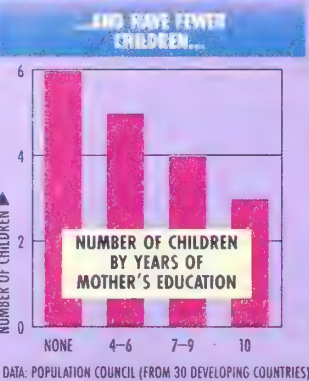
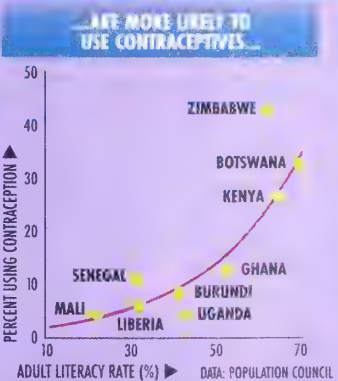
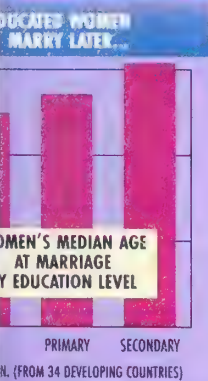
**“SOCIAL TRIAGE.”** The Cairo meeting will  
 sidestep the growth issue, focusing in-  
 stead on the toll that high fertility takes  
 on people. Each year, 500,000 women in  
 developing countries die from complica-  
 tions of childbirth and illegal abortions—  
 13 times the rate in industrialized na-  
 tions. Children with many siblings feel  
 the effects, too. “Families do social  
 triage,” says Judith Bruce, senior asso-  
 ciate at the Population Council, and boys  
 take priority in many countries. So girls  
 are more apt to die before the age of 5,  
 be undernourished, and not attend  
 school. One result: Some two-thirds of  
 the world’s 950 million illiterates are



**2** Make family planning available to those who want it but don’t have access—about 100 million women in the developing world—and educate men about the importance of sharing decisions.



**3** Offer broader health services, including reproductive care for women, medical care for infants, treatment of sexually transmitted diseases, and family planning for adolescents.





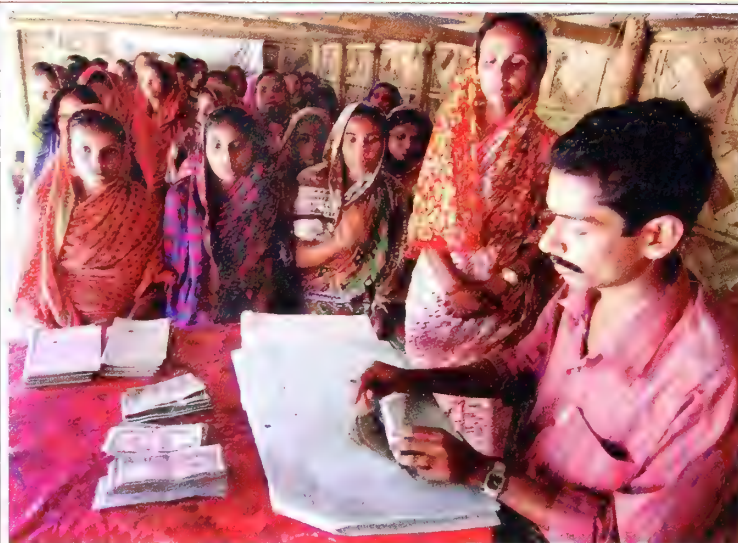
women, according to U.N. statistics.

Exploding populations get short-changed in other ways. "Governance itself may become a scarce resource," says Duke's Kelley. Today, some 1.2 billion people lack clean drinking water, while some 1.7 billion are without adequate sanitation. Strains on governments will only get worse: 57% of developing nation populations will be urban by 2025, vs. 34% today. Slowing the population growth can ease those pressures. In Mexico, for instance, cutting fertility from 4, the 1980 level, to 2.12, the goal by 2010, will lower the number of new jobs needed by 50%.

Putting on the brakes means addressing three causes of population growth: Unwanted births account for up to 26% of overall fertility. Population momentum—the rising number of women of childbearing age—accounts for 49% more. And many couples actually want numerous children. In some societies, children are their parents' social security. And where infant mortality is high, couples have more children to compensate.

**TEENAGE SEX.** There are several ways to address this. China has cut fertility to 2 by imposing a draconian goal of one child per family. Most countries, though, reject coercion in favor of an approach combining birth control, lower infant mortality, education, and better economic prospects for women. Using such a mix, Colombia, Indonesia, Mexico, and Thailand have produced stunning declines in fertility—and have helped convince policymakers that the Cairo plan might stabilize world population by 2050 at 8 billion instead of 10 billion.

In each nation, the recipe "will change over time, depending on the stage of development," says Thomas W. Merrick, population adviser at the World Bank. But the right moves can work against all odds. Bangladesh, for instance, "goes diametrically against the notion that you must increase prosperity to lower fertility," says John G. Clelland, professor of medical demography at the London School of Hygiene & Tropical Medicine. With 116 million people shoehorned into an area no larger than



## VENTURE CAPITAL

Women operating businesses meet to repay loans from Grameen Bank in Bangladesh

Wisconsin, it has an annual per capita income of \$210. Its predominantly Muslim society—85% rural—keeps women at home. The literacy rate for women 15 to 44 is only 27%. Yet infant mortality is on the decline. Some 40% of childbearing-age women use contraceptives, up from 10% in 1975. And over that period, the fertility rate has tumbled from 7 to 4.2.

These results stem from a government-run family-planning program that has been broadened to include infant health care, nutrition, and prenatal care instead of simply stressing numerical birth-rate targets. That makes it "easier to motivate women" says Halida Hanum Akhter, director of the Bangladesh Institute of Research. These efforts are bolstered when poor women get a chance to earn money. Grameen Bank in Dhaka will lend \$500 million this year, in sums of \$100 or so, to help women start businesses.

There's no limit on what can be tried. Since the late 1980s, Zimbabwe has pushed men to embrace family planning. Reaching teens is critical, too, since many in poor nations marry—as many as 50% in Africa. And as societies modernize, more teenagers become sexually active. Champa Development Unit, a private family-planning agency in the mountains north of Mexico City, is

trying to head off early pregnancy and marriage. It uses teens to pass on contraceptives to the peers—and to counsel even 10-year-olds on sex and family planning.

In the long run, though, education for girls is the best strategy. One U.N. study of data gathered from 40 countries found that women who had seven or more years of schooling tended to have three fewer children than their unschooled peers. That's because schooling delays marriage and child birth and boosts earning power. As a woman's

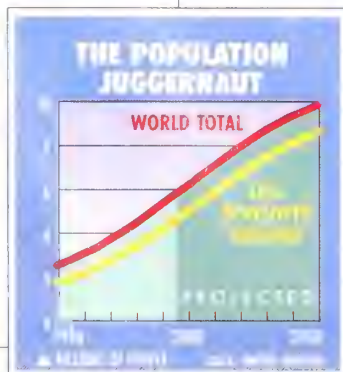
earnings rise, her value as a stay-at-home mother goes down. And even some schooling gives women more confidence. The Population Council's Bruce says that educated women are more likely to discuss family size with their husbands and use contraceptive

While the outlines of the U.N. plan are in place, key issues must be thrashed out. Setting goals for universal education, family planning, and lowering infant mortality makes some countries nervous. They "fear they will be translated into targets, which raises the specter of coercion," says Nafis Sadik, director general of the conference. In late August, U.N. officials also were jockeying with the Vatican over language—which Sadik says is meant only to end unsafe abortions. And implementing Cairo-style programs could be harder than passing them. Family planning will compete with other needs in countries where health budgets are \$2 a person annually.

Still, momentum is building. Britain, Germany, Japan, the U.S., and the European Union have pledged increases in population aid. And USAID, the World Bank and the Inter-American Development Bank are laying plans for Cairo-style programs. The World Bank is boosting spending on health, population, and educational programs, and is drawing up a family planning and women's education initiative for Pakistan. And countries such as Indonesia plan to share population expertise with novices, such as Vietnam.

Perhaps more important, the plan has logic on its side: "All the things in the Cairo agenda can be justified because they contribute to development," says Sadik. That, in the end, may give the program its best chance to succeed.

*By Emily T. Smith in New York, and Margot Cohen in Jakarta and Elisabeth Malkin in Mexico City*





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\$3,024 due at lease signing. Monthly payment is based on a capitalized cost of \$36,142 for a total of monthly payments of \$11,976. <sup>\*\*</sup>24-Month SmartLease With No Down Payment. First month's lease payment of \$608 plus \$650 refundable security deposit and consumer down payment of \$0 for a total of \$1,258 due at signing. Monthly payment is based on a capitalized cost of \$38,642 for a total of monthly payments of \$14,592.

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## ARE SUPERDEEP DISCOUNTERS AS CHEAP AS THEY SEEM?

Critics say trades done with lowballers—and even traditional discounters—can cost investors more

**L**istening to Everett F. Lang, one almost can't help thinking he belongs astride the prow of a boat or rattling a saber before a crowd of infidels: "Our goal is to be the place America trades its stock!" he cries. "We've carved the niche, and we'll defend it mightily!" Lang, the president of Manhattan-based National Discount Brokers (NDB), is indeed thigh-deep in a battle—a fierce price war being waged by the rapidly growing breed of super-deep-discount brokers. It's an assault that has traditional discounters fighting to maintain market share at a time when trading volume and commission revenue are down. And while consumers may win lower commissions, they sometimes wind up paying a higher price for their stock.

Lang is at the forefront of an aggressive effort to capture investor trades with offers of commissions as low as \$25 to trade up to 20,000 shares of a \$5 over-the-counter stock. Offers like that are not only giving grief to the full-service brokerages—such as Merrill Lynch & Co., which could charge more than \$1,500 for such a 20,000-share trade—but are also forcing the discount industry into a price war. "NDB is having a major impact on the industry," acknowledges Jack White, president of San Diego-based discounter Jack White & Co. These superdeep discounters are creating a three-tiered industry (table): traditional discounters, led by Charles Schwab & Co.; a middle tier of firms, including Muriel Siebert & Co.; and the growing ranks of superdeep discounters. To meet the competition, some of the traditional discounters have launched their own deep-discounting operations.

**TRADING SHOTS.** The commission wars are fought with a barrage of advertising from the upstarts. NDB and a Boston-based competitor, Brown & Co. Securities Corp., which is owned by Chemical Bank, are in pitched battle. NDB advertised a \$30 rate for certain trades. Brown responded with a \$29 rate. NDB fired back with a \$25 offer. Enter a new

firm, Washington Discount Brokerage Corp. It advertises a limited-time offer of \$17.76 on all trades up to 5,000 shares.

Another attack on the deep discounters comes from Muriel Siebert & Co. The firm is launching an assault on both Schwab and "the new guys" in television ads that refer to "untested Johnny-come-latelies, with lowball rates, unexpected charges, and restrictions." The new ads also note that the firm's pricing is "70% below Schwab's" and "consistently less" than Fidelity Brokerage Services Inc.'s and Quick & Reilly's.

The battle of the discounters is as intense as it is because the winners will take home many millions. In recent years, discounters have been one of the most profitable groups in the securities industry. Discounters that are members of the New York Stock Exchange averaged a pretax return on equity of 39.1% in 1993. Discounters have steadily eaten bigger bites of their full-service peers' lunch, moving from a market share of 4.6% in 1983 to over 14% in 1993. And it's a big pot: Retail commission revenue in 1993 was \$9.1 billion.

How can the deep discounters charge so little for trades—and still make a buck? The "secret" is that commissions are the icing on the cake. The big rewards come from what is known in the

business as "payment-for-order flow," order to attract trades, market makers—firms that stand ready to make markets in over-the-counter stocks—often pay 2¢ a share to a broker for sending orders their way. While many consumers aren't aware that such payments are made, NDB gives full disclosure in brochure, stating that NDB "can afford to charge one flat \$25 fee for all NYSE/OTC transactions because of the

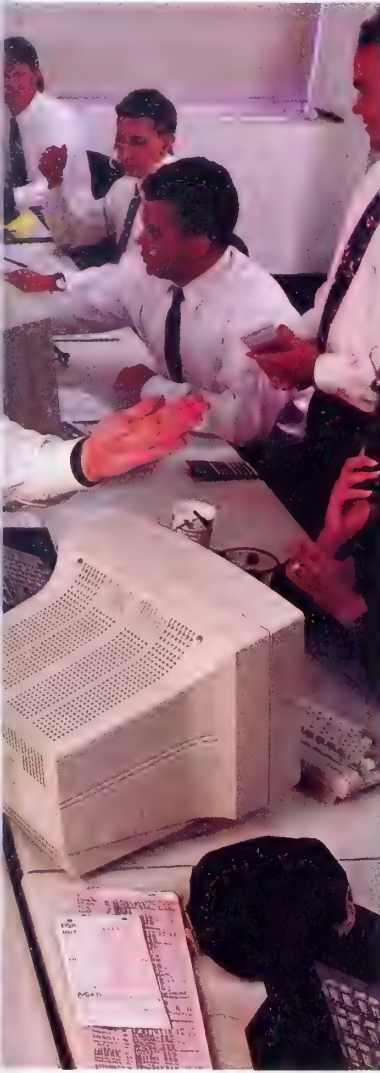


**NATIONAL DISCOUNT'S LANG HE VIGOROUSLY DENIES THAT CUSTOMERS OFTEN PAY A HIGHER SHARE PRICE THAN NECESSARY**



it receives from other deal-  
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ged more,” says discounter White.  
questions whether trades done by  
s that make markets (hold invento-  
n the stocks they take orders on  
ys give the discounter's customers  
best price. NDB's Lang says such



# HOW LOW CAN THEY GO?

The three-tier market in commissions

| Firm                      | Transaction cost*    |                      |
|---------------------------|----------------------|----------------------|
|                           | 1,000 shares at \$25 | 5,000 shares at \$10 |
| CHARLES SCHWAB            | \$155.00             | \$290                |
| FIDELITY BROKERAGE        | 154.50               | 245                  |
| JACK WHITE & CO.          | 63.00                | 133                  |
| MURIEL SIEBERT & CO.      | 50.00                | 100                  |
| BROWN & CO.               | 29.00                | 29                   |
| NATIONAL DISCOUNT BROKERS | 25.00                | 25                   |

\*FOR OVER-THE-COUNTER STOCKS

DATA: COMPANY REPORTS

claims are sour grapes: Because he has a deep-pocketed parent, Sherwood Group, that helps fund the firm's heavy advertising, “our economies are different” from other firms, he says. Lang stresses that orders are automatically routed to the best bid and offer available.

Perhaps. But that's not always the case with discounters of any stripe. A broker who works for a traditional discounter—not a deep discounter—acknowledges that customers don't always get the best price. The broker cites a recent trade where an investor wanted 2,000 shares of a \$15 stock. On the New York Stock Exchange, the bid was 15 and the ask was 15½, but “on the exchange, you could get a price of 15½, between the bid and ask,” says the broker. In the third market, however, there was no middle ground, so a buyer would pay 15½. And that's where the client's order went, since routing the trade to a market maker meant \$40 of profit for the discount brokerage.

An exhaustive 1993 study of stock market transactions handled both on the exchanges and on the third market, by University of Michigan professor Charles M.C. Lee, backs up the broker's contention. Lee's article in the *Journal of Finance* found that “...during 1988 and 1989, off-Board dealers paying cash inducements were able to recoup those payments in the form of higher effective spreads”—that is, by charging the investor more.

Whether or not consumers who are using discounters are getting less than they bargained for, the low commissions are alluring. Are full-service brokers feeling the heat? Merrill Lynch says it is not transaction-oriented and thus does not consider deep discounters competition. Full-service brokers' main challenge comes from tra-

ditional discounters, which are adding ever more bells and whistles to their offerings.

That may indeed be true. But traditional discounters are also guarding their flank. For the first time, Schwab is advertising and marketing a beefed-up program that it has had for active investors since 1984, called the Schwab 500 Brokerage. Depending on how much trading a user does, the customer can get a discount of up to one-fifth more than Schwab's standard discount commission on the next quarter's trades. As with most firms, traders get an additional 10% off if they place orders through an automated computer or touch-tone telephone service.

**CANNIBALS?** But traditional discounters realize they have to offer deep-discounting services, too. Take Fidelity Investments. Along with Fidelity Brokerage Services, the firm owns a deep discounter, Spartan Securities Corp., which may charge less than half the commission levied by its higher-priced cousin. Fidelity views the service as a value-added product to satisfy active traders and says it is advertised a fair amount—even if, as Fidelity recognizes, it does wind up cannibalizing the higher-priced service.

That possibility may explain why the chairman of Waterhouse Securities Inc., which recently launched deep discounter Washington Discount Brokerage Corp., tried to deny that it owns the firm. Indeed, when *BUSINESS WEEK* asked Lawrence M. Waterhouse Jr. for information about the new discounter, he feigned ignorance: “It's not ours. I have no idea who they are. Do they clear through us?” When *BUSINESS WEEK* reminded him of the firm's filing with the SEC—and that his daughter is president of the company—he relented. The launch was just a training exercise for one of the firm's divisions, Waterhouse explained. “We wanted to test doing fully disclosed clearing, so we figured we would test it on ourselves, and then

when new discounters came out over the past year, we thought we'd have fun with that.”

Maybe so. But in the future, the escalating assault by deep discounters is likely to cause him—and the rest of the established discounters—more of a headache than a belly laugh.

By Suzanne Woolley  
in New York

## DISCOUNTERS KEEP GAINING MARKET SHARE





# STOCK BUYBACKS ARE BACK—WITH A TWIST

By selling put options, companies are reaping tax-free windfalls

**A**mid the scare talk about the dangers of derivatives, a small but growing list of big U.S. companies is quietly using them to cut their costs of stock repurchases—so far, without apparent harmful side effects.

Stock buybacks are nothing new, of course. For years, companies that considered their stock a bargain have repurchased shares. This year, the number of announced buyback deals is running at the highest level since 1990, according to Securities Data Corp.

Something new has been added. Growing numbers of sophisticated companies are benefiting by repurchasing their stock, while at the same time selling put options to investment banking firms giving them the right to redeem their shares in the future at a predetermined "strike price." This strategy, treasurers say, typically results in a lower average cost per share to the company than if it had simply bought the shares back the traditional way. At least one company has reaped a windfall of more than \$100 million—tax-free.

**"UNCOMFORTABLE."** Although there have been no known heavy losses or other snafus involving put options in buyback programs, derivatives have become so sensitive a subject that only a few companies—notably Intel Corp. and WMX Technologies Inc.—disclose using the technique in public filings. Others, including Hercules Inc. in Wilmington, Del., and Mobil Corp., are known to be using puts but do not disclose it. Spokesmen for the two companies declined to comment.

W. Bradford Hu, vice-president for equity derivatives at Morgan Stanley & Co., one of about a half-dozen big firms that buy these options, estimates that while only about two-dozen U.S. companies have gone the put-option route, "a couple of hundred" could benefit from using them. Some financial officers, he says, "resist using put options in buy-

back programs because of the fear that the CEO might be uncomfortable with it," says Hu. "It's sometimes a long education process to get him comfortable."

The arrangement works this way: A company whose stock is trading at, say, \$25 sells put options at \$3 per share, giving the holder the right to sell shares to the company at \$24 a share when the options expire three months later. If the stock price remains steady or rises—

## SAVING MONEY ON STOCK BUYBACKS



**IF THE STOCK RISES TO \$28**

- ▶ Put option expires worthless
- ▶ XYZ keeps \$3 premium (tax-free)
- ▶ XYZ can use \$3 to lower stock repurchase cost by \$3 a share



**IF THE STOCK FALLS TO \$22**

- ▶ Put option is exercised at \$24 per share
- ▶ XYZ keeps \$3 premium
- ▶ Net purchase cost is \$24 minus \$3 or \$21 a share

say, to \$28—the options expire, and the company pockets the cash. Since companies, under tax and accounting rules, are not allowed to treat premiums from stock-related transactions as earnings, they can record the transaction as a tax-free credit to cash and equity. If the price falls to, say, \$22 a share, the holder will likely exercise his option, selling shares to the company for \$24 each. Considering the \$3 option premium, the company's effective cost is \$21 a share, \$1 cheaper than the \$22 market price.

There's a downside to the technique. If the shares fall substantially, the company's effective cost would exceed the stock price. For example, if the price

fell to \$10 and the company had to purchase the shares from option hold at \$24 instead of \$10, the company's treasurers acknowledge, would obviously have egg on its face. But they argue that as long as they were prepared to repurchase the stock at \$25 per share the first place, the missed opportunity would be bearable.

The investment-banking firms that buy the options aren't doing it merely to accommodate repurchase clients—they expect to make money on their put options. Experts say they would face serious risks only if share prices remain stagnant for a long period of time.

**CLEANING UP.** One of the first companies to do option buybacks was Intel the Santa Clara (Calif.) microchip maker. Since 1990, when it first sold put options in connection with a buyback offer, it has raked in \$183 million in premiums. Indeed, Intel fits the profile of

company most likely to benefit from such a program. Besides its rapid growth, its stock has been exceptionally volatile, which attracts option buyers. On its way from a share price of about \$20 in early 1990 to its close on Aug. 17 at \$61, Intel stock has suffered some short-term setbacks. Says Treasurer Arvind Sodha, who initiated the program, "Volatility creates value. Your stock has to have a certain amount of volatility or the premiums aren't going to be of a size that would make a difference."

Since WMX Technologies, an environmental cleanup company in Oak Brook, Ill., began using the technique earlier this year, it has added \$15 million to its coffers, according to Bruce Tobecksen, vice-president for finance. Few companies, though, disclose their use of option buybacks in public financial statements. Charles S. Whitman III, a securities lawyer with Davis Polk & Wardwell, says that while companies are required to disclose sizable buyback programs, "they're not required to announce the mechanics involved."

Morgan Stanley's Hu says recent tax law changes that favor capital gains over dividend income for individuals will likely trigger more buyback offers. And adds that using put options could become more popular as financial officers become increasingly familiar with the technique. If that happens, more users might find it safe to come out of the closet.

By Phillip L. Zweig in New York



# HERE'S NO TIME LIKE THE PAST TO INVEST IN HMOs

Competition and price-cutting crimp the stock group's boom

Ever since health care became topic No.1 in Washington, an ominous cloud has hung over an array of companies, from drugmakers to insurers. But for investors in health-maintenance organizations, the debate has been a panacea. Most reform proposals would encourage membership in managed-care arrangements such as HMOs. Even with legislation, businesses are pushing employees into these groups, which keep employers' costs low by charging a flat fee for each worker. Despite being buffeted by fears of price cuts early last summer, HMO stocks are up an average 17% for the year, vs. an overall market that's down 1%. And that's on top of a 25% jump last year and an 87% increase in 1992.

Despite these gains, some analysts believe that the group is a buy. But smart money is heading for the door. "Some strong HMOs and those targeting underpenetrated markets may do well, but many will see shrinking margins as large employers demand better deals. I wouldn't even consider the HMOs at these prices," says Morton H. Sachs, who runs an investment-advisory firm that is selling some of its HMO holdings. "The squeeze from employers started in California and is spreading fast. In June, 11 large employers in California won rate cuts of 5% to 10% for 1993 from 17 HMOs. And more recently, in Darling, Xerox Corp.'s manager health-care strategy, won an average reduction from the company's HMOs of 7% for next year. Several plans cut rates by 14%. "Even I was amazed at that," says Darling.

**SQUEEZE.** Such price cuts also reflect the start of fierce new competition in the market. Shares of Mid Atlantic Medical Services Inc., a Rockville (Md) company, have slid because of concerns about competition with the entry of Humana Inc. into the Washington market early this year and the continued expansion in the area by giant U.S. Healthcare Inc. Mid Atlantic's stock is trading at 24 a share, off from a high of 27 in June. CEO George T. Johnson says the company doesn't expect competition to hurt margins and insists that his sale of 130,000 shares so far this year was done to diversify his portfolio.

Despite the stock's decline and speculation that the company could be an acquisition target, Anne K. Anderson, president of Atlantis Investment Co. in Parsippany, N. J., believes Mid Atlantic is still overvalued and is recommending that clients sell the stock. In fact, according to HMO research firm Sherlock Co., the price per patient based on the company's market value is \$1,902, while the industry average is \$1,364. Similar

ty, has dumped about 700,000 shares since the beginning of the year, citing the risk of Foundation's aggressive acquisition binge. While the company has acknowledged that the acquisitions will dilute earnings in the near term, the deals, it claims, make economic sense over the longer haul.

Some big HMOs are likely to prosper, however, as membership surges. United Healthcare Corp. is expected to expand membership at a rate of 22% annually. A hefty cash reserve of \$2.4 billion will give the company flexibility in making more acquisitions. And continued investment in its information systems should keep operating costs low. "The efficient, high-volume HMOs with good computer systems will have a real advantage," says Steve W. Enos, a portfolio manager with Wells Fargo Bank who has bought United stock for institutional clients.

## THE PROGNOSIS FOR HMO STOCKS

Here's how some large publicly held HMO companies stack up:

| PICKS                                                                                                                    |                  |               |     |
|--------------------------------------------------------------------------------------------------------------------------|------------------|---------------|-----|
| Company                                                                                                                  | Price<br>8/16/94 | YTD<br>change | P-E |
| <b>HEALTHSOURCE</b>                                                                                                      | 30               | 8%            | 28  |
| Innovative New Hampshire-based HMO looking to expand into New York City through a partnership with competitor Chubb Corp |                  |               |     |
| <b>HUMANA</b>                                                                                                            | 19               | 6%            | 22  |
| Despite some recent regulatory problems, Humana is poised for cost reductions and market expansion                       |                  |               |     |
| <b>UNITED HEALTHCARE</b>                                                                                                 | 46               | 22%           | 34  |
| Industry leader maintaining hefty growth rate by targeting new markets and small-business customers                      |                  |               |     |

| PANS                                                                                                                      |                  |               |     |
|---------------------------------------------------------------------------------------------------------------------------|------------------|---------------|-----|
| Company                                                                                                                   | Price<br>8/16/94 | YTD<br>change | P-E |
| <b>FOUNDATION HEALTH</b>                                                                                                  | 34               | 10%           | 12  |
| Aggressive expansion outside its fiercely competitive home state of California raises concerns about earnings dilution    |                  |               |     |
| <b>MID ATLANTIC MEDICAL SERVICES</b>                                                                                      | 24               | 88%           | 26  |
| Possible acquisition target now facing increased competition from big players moving into its market                      |                  |               |     |
| <b>OXFORD HEALTH PLANS</b>                                                                                                | 64               | 21%           | 52  |
| Aggressive expansion in New York, New Jersey, and Connecticut raises concerns about corporate controls and margin erosion |                  |               |     |

DATA: BW SURVEY OF WALL STREET ANALYSTS; BRIDGE INFORMATION SYSTEMS INC.

share-price concerns have turned some institutions off to Oxford Health Plans Inc., which is selling at a price-earnings multiple of 52, despite explosive growth. Some HMOs scrambling to diversify beyond hotly contested home markets are also risky plays. Foundation Health Corp. is expanding rapidly outside its California base through acquisitions. Two deals announced earlier this summer worth close to \$1 billion would let the company enter such markets as Utah, Arizona, and Florida. But analyst Mary C. O'Connell of San Francisco's Louis Nicoud Associates warns that Foundation may have overpaid to penetrate these markets. At least one large institutional investor, who requested anonymity,

Investors should also look past the giants for potential winners. One current favorite of Kidder, Peabody & Co. analyst Joel M. Ray is Healthsource Inc., a New England-based HMO that is targeting underpenetrated smaller markets, including Savannah, Ga., and Little Rock, through joint ventures with local doctors and hospitals. It has also started a new HMO with Chubb Life Insurance Co. to break into New York City. Healthsource and other opportunistic operators should rack up respectable gains—for a while. "The game in HMOs isn't over," says Ray, "but it's probably in the seventh inning."  
*By Amy Barrett in Washington, with Eric Schine in Los Angeles*



BY GENE G. MARCIAL

## THIS LENSMAKER'S WORLD MAY BE GETTING ROSIER

**E**mbattled Cooper, maker of contact lenses and other ophthalmic products, is still high on institutional investors' garbage list. Its shares plummeted to half a buck in mid-February, down from 12 in 1988. So is the stock ready for the dump? A number of savvy pros think not, and they've been buying up shares, now trading at 1%. What gives?

"Seldom does one get an opportunity to buy into a company with promising new products at such a low valuation," argues Roger Benson, president of Number One, an investment manager in Norwalk, Conn. He thinks Cooper, in the red for the past seven years, will turn a profit in the year ending Oct. 31, 1995, when he expects it to earn 30¢ a share, vs. an estimated 50¢ loss in 1994. In 1996, he sees earnings jumping to \$1. Like Benson, other bulls see the stock at 10 in two years.

These pros aren't unmindful of what drove Cooper to the poorhouse. Ex-Chairman Gary Singer was convicted in January of securities fraud, in which he used company funds. Cooper had to pay \$3.1 million for its role in Singer's front-running scheme. And the company has just settled almost all the lawsuits arising from its breast-implant products. In 1993, legal costs reached \$30 million.

**"REAL JEWEL."** But Cooper, notes Benson, is getting its act together under new management led by Allan Rubenstein, elected chairman in April, 1993, and Thomas Bender, named chief operating officer in August. Prospects, says Benson, have brightened, thanks to cost-cutting and consolidation.

The "real jewel," says Benson, is CooperVision, which makes flexible and long-wear contact lenses, including such brands as PermaLens and Hydrasoft. It accounted for 44% of 1993 revenues of \$92.7 million. The Hospital Group of America unit, which operates facilities for psychiatric and chemical-dependency treatment, generated 31% of revenues. And CooperSurgical, with 25% of sales, markets diagnostic and surgical instruments.

Benson believes CooperVision Pharmaceuticals, which develops ophthalmic drugs, will have a blockbuster

## VISION CORRECTED AT COOPER?



product: its own version of verapamil, a calcium channel blocker. Using verapamil, Cooper has developed an anti-glaucoma product that reduces pressure buildup in the eye. The drug is undergoing clinical tests, and Cooper expects to file a Food & Drug Administration application next year. Rival Merck already has an anti-glaucoma drug on the market, with more than \$180 million in U.S. sales. If Cooper's entry sells even a quarter as much as Merck's, "earnings from it could exceed Cooper's current market value of \$48 million," figures Benson.

## SALLIE MAE COULD MAKE OUT NICELY

**O**nce the giant in campus lending, Student Loan Marketing Assn. has learned a stark lesson: The government giveth—and then taketh away. Popularly known as Sallie Mae, the company was the largest holder of federally guaranteed student loans—until the government announced last year that starting in July, 1994, it would make 60% of such loans directly. Since then, Sallie Mae's stock has headed south, losing about half its value—from 70 in 1993 to 34 lately. Predictably, most analysts are down on Sallie Mae.

But some contrarians, including money manager Robert Torray and Capital Research & Management, have upped their stakes: They expect Sallie Mae to become an even bigger factor in the business—whether or not Uncle Sam is any good as a lender.

"The government's entry will spark

a massive consolidation, and there will be fewer players around," says one money manager. So Sallie Mae will still be "the dependable industry mainstay."

Analyst Leslie Nelkin of Funn Selz agrees. "Even if government lending succeeds, a likely surge in demand will create enough business for Sallie Mae," he says, noting that loan origination should rise by 20% to 25% this year, thanks to a new rule raising loan limits and expanding availability.

Even under conservative assumptions, says Nelkin, Sallie Mae's stock could grow to \$5 a share in 1994 and \$6 in 1995, up from \$4.83 in 1993. Nelkin sees the stock rebounding to 55 a year.

## IS WARNER-LAMBERT ON THE BLOCK?

**T**akeover frenzy in the pharmaceutical industry has picked up, fueled by American Cyanamid's acceptance of a sweetened \$101-a-share offer from American Home Products. The question titillating the Street: "Who next?"

High on the takeover-target list is Warner-Lambert, a maker of prescription and over-the-counter drugs. Whispers are that management, feeling the buyout pressure as the stock climbed from 60 in March to 79% lately—is considering selling its drug operation, which analysts figure would bring \$100 to \$50 a share. Warner-Lambert would have no difficulty finding a buyer, says one New York investment manager. Sales hit \$5.7 billion last year.

As an alternative move, according to this pro, Warner-Lambert may spin off parts of its two other units: consumer health care and the gum-and-minor operation. Health-care products include Listerine, Bromo-Seltzer, and Schick and Wilkinson Sword razors. Gum and mints include Dentyne, Trident, Chewing Rets, and Certs. The units are estimated to be worth \$60 a share.

Warner-Lambert has a breakup value of about \$100 a share, figures Mill Metz of Oppenheimer. He says he wouldn't be surprised if Warner-Lambert broke up the company to stave off a buyout offer. But analyst Neil Swartz of Ladenburg Thalmann predicts Warner-Lambert will be acquired by a larger company this year. European giant Ciba-Geigy, Glaxo, and Hoffmann-La Roche are possible buyers. Warner-Lambert declined to comment.



UTERS



HA: UNION PACIFIC HAS CONSOLIDATED TRAIN DISPATCHING IN AN UNDERGROUND CENTER

## HEY'VE BEEN WORKING IN THE RAILROAD

Computer-based reengineering may help get trains back on track

For decades, railroad companies led the way in applying the latest form of what is now called information technology. Having to coordinate so much activity scattered across the continent, railroads were quick to pick up the telegraph, telephone, and teletype. They also were early and big users of Herman Hollerith's punch-card tabulators, which eventually formed the backbone of a company called IBM. Today, of course, in an age of Information Superhighways, railroads hardly read like high-tech success stories. In the 1980s economic boom, the U.S. rail industry's freight revenues remained nearly flat, at about \$29 billion, as intercity trucking revenues soared—from \$95 billion in 1981 to \$167 billion in 1991. Railroads maintained their 40% share of freight volume during that time but had to cut prices to do so. That loss of experience is spurring big changes. Several pending mergers of railroads, including Norfolk Southern Corp.'s recent proposal to join forces with Conrail Inc., will help create a more unified system.

But equally important, the railroad industry is reengineering itself around improved information systems. The idea is not simply to boost productivity—deregulation forced that more than a decade ago (chart). The goal now is to improve customer service radically. Traditionally, notes one railroad executive, the industry's view of customer service was "Neanderthalic." So rail carriers are scrambling to make pickup and delivery schedules more precise and give customers up-to-the-minute information on their shipments. In short, railroads are out to make their services mesh with the logistics systems of their customers as smoothly as truckers do. "The railroads are learning that they don't just manage trains," says Robert O. Wagner, formerly chief information officer at Consolidated Rail Corp. and now a management con-

sultant in Melville, N.Y. "They have to manage their customers' shipments from door to door. Eventually, they'll be managing customers' inventories." Indeed, Chrysler Corp. now has rail companies tracking its autos all the way from factory to dealer. The goal is to have the autos sit for no longer than four days anywhere along the route. "Railroads have improved dramatically," says Thomas Stahlkamp, vice-president for purchasing at the carmaker.

**PAST AND PRESENT.** There are more improvements on the way. A big change is in the approach to information. Most railroads have mainframe-based information systems that were designed to report on past events, not to monitor present activities or predict future trends. And while individual railroads have employed a variety of techniques to monitor

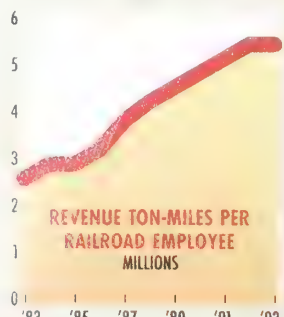
freight cars electronically on their own tracks, there hasn't been a way to tell a customer what's happening to a car when it passes from one railroad to another. Not only does that make it difficult for a customer to track shipments, it also makes it impossible for a railroad to live up to promises of on-time delivery.

That's where the new information networks could have the biggest payoff. Recognizing that their fragmented information networks are a competitive disadvantage, railroads are backing an industrywide effort to create information standards that will pave the way for what's called "seamless service." That means giving customers one-stop shopping for freight-shipping needs. The Association of American Railroads (AAR), a trade group in Washington, D.C., has just endorsed a plan to equip all freight cars with radio-activated identification tags—a technology that's expected to

perform better than a previous bar-coding scheme, which could be derailed by a bit of mud. By late next year, more than 1,000 track-side readers are scheduled to be in place throughout the country, allowing railroads to constantly monitor the cars on their rails.

Managers at companies such as Union Pacific, Santa Fe Pacific,

### MOVING FREIGHT



PHOTOGRAPH BY KENT SILVERMAN; CHART BY ALAN BASECEN



and Conrail expect that the tag data, organized and processed properly, can help in many ways: Railroads can alert customers to delays—caused by weather, perhaps, or equipment malfunctions—as soon as they're detected. They can also plan the makeup of future trains more efficiently. And they can fine-tune their schedules.

Still, tag readers solve only half the customer-service problem. An important advantage for truckers has been their ability to move goods long distances using a single vehicle. For them, it's a simple matter to track and reroute shipments. By contrast, more than half the tonnage shipped by rail involves two or more railroads, and each handoff between lines increases the probability of delay and missing a promised delivery time. Only by knowing where each car is and when it's there, says Michael P. Gelhausen, managing partner of Andersen Consulting's transportation and travel services practice, can railroads achieve their No. 1 goal: becoming "an integrated part of the customer's logistics pipeline."

**TRUCK HITCH.** The rail industry's answer: a scheme called interline service management, which calls for the dozen largest railroads to share their tag data through a system run by the AAR. The railroads already exchange the bulk of their invoices and other business forms with customers electronically, using a so-called electronic data interchange (EDI) network. But to share car-location data, they're developing a common set of definitions for the different types of data they plan to collect and exchange. Once that's finished, "the customer has only to deal with a single, prime carrier," says Joyce M. Wrenn, who last year was hired away from American Airlines Inc. to become chief information officer at Union Pacific Railroad Co. The nerve center of Wrenn's operation is the company's underground dispatch center in Omaha.

In the name of customer service, the railroads are doing something truly radical with their information systems—using them to coordinate with trucking companies. Many trucking companies, it turns out, have trouble keeping qualified long-haul drivers because of the grueling hours. So they are handing over many long-haul shipments to railroads. J.B. Hunt Transport Services Inc., the giant Arkansas-based trucking company, has been working closely with Santa Fe for several years. Now, with computer links between rail and truck carriers, it should become far easier for customers to order up such "intermodal" shipments with a single call. At this rate, railroads could once again be on track with information technology.

*By John Verity in New York*

# The Corporation

STRATEGIES

## WHY SUNBEAM IS SHINING BRIGHTER

A new chief overhauled it nicely. But will investors stay happy?

**R**oger W. Schipke hadn't been on the job as chief executive officer of Sunbeam-Oster Co. for more than a day when one of his executives presented him with a dilemma last August. The company's big push into outdoor furniture was about to begin, but managers were hesitating to build inventories ahead of the springtime buying season. After all, Sunbeam's former CEO, Paul B. Kazarian, had frequently inveighed against getting stuck with unsold products. Schipke conveyed no such qualms. He ordered Sunbeam-Oster's

factories into high gear—a move that is ultimately expected to contribute to a double-digit sales increase at the outdoor-products division this year.

That one decision says a lot about Schipke and Sunbeam's aggressive new style. Kazarian was ousted by the board in January, 1993, after a widely publicized and acrimonious exchange with Sunbeam's biggest shareholders. Schipke, 57, has restored much of the luster to the household-products maker's corporate—and brand—image. In his first year as CEO, Schipke has picked up the pace of new-product introductions and overhauled Sunbeam's management, while expanding the Fort Lauderdale (Fla.) company's global reach (table). "We want to be the premier small-ticket, durable-products company," he says.

By the looks of

things, Schipke certainly seems to have a shot at that goal. Analyst Andrew Silver of Dillon, Read & Co. estimates that Sunbeam's profits could climb 14% this year, to \$100.9 million, as its revenues increase 10%, to \$1.17 billion. Wall Street seems happy with Schipke's accomplishments: The company's shares are now trading at about 23, up more than 22% from a year ago.

Sunbeam-Oster's direction looked decidedly less clear in the waning months of Kazarian's tenure. A former Goldman, Sachs & Co. investment banker,

### SUNBEAM'S STRATEGY...

**NEW PRODUCTS** Extending existing lines by introducing new offerings, including breadmaker and can opener with blade detachable for cleaning. New designs stress easier assembly to lower production costs.

**ACQUISITIONS** After buying such companies as grillmaker Arklamatic and bathroom-scale company Borg to complement existing product lines, Sunbeam is considering expanding into other areas, such as personal health care.

**GLOBAL PUSH** Building on strength in Latin America with more product offerings. Considering joint ventures in Asia.

### ...BRINGS REWARDS

ESTIMATED 1994 RESULTS

**REVENUES** \$1.17 BILLION

UP 10%

**NET PROFITS** \$100.9 MILLION

UP 14%

**STOCK PRICE\*** \$23

UP 22%

\*AUG. 15 PRICE COMPARED WITH YEAR-EARLIER CLOSE  
DATA: BUSINESS WEEK; DILLON, READ & CO.





ian was instrumental in rescuing Sunbeam-Oster from Chapter 11 in 1990 its parent, Allegheny International, into bankruptcy. Together with investment-fund managers Michael H. Steinhart and Michael F. Price, Kazarian formed a partnership that bought most of Sunbeam-Oster's assets.

CEO, Kazarian made great strides in Sunbeam around. Before long, however, some executives complained to the board that Kazarian wasn't going to commit capital to new production plants. Kazarian denies any suggestion that he was a poor CEO. "The respect for themselves," he says, "improved sales during his tenure."

**INTERFERENCE.** Faced with a mutiny in the executive suite, directors fired Kazarian, setting off a nasty round of lawsuits. Kazarian contended that his ouster was simply a maneuver for Steinhardt and Price to pressure him into giving up control of the partnership. "If anyone would have asked, I would have stepped down [as CEO], but I wouldn't have relinquished the control of the general partnership," Kazarian says now. The litigation ended in July,

1993, when Sunbeam-Oster paid \$151 million to Kazarian and \$26 million to other partners in a stock buyback. Steinhart and Price held on to their shares in Sunbeam-Oster and now have a combined 57% stake.

Removing Kazarian from the picture was important to Schipke, who wanted a free hand at Sunbeam-Oster. He was accustomed to plenty of autonomy. He had spent 29 years at General Electric Co., including eight as head of its appliance division. The unit's sales more than doubled, to \$5.2 billion, in 1989 during Schipke's watch. Still, not all of his tenure was so successful. In a major corporate embarrassment for GE, the company took a \$300 million aftertax write-off in 1988 to fix problems with its refrigerator compressors. In 1990, Schipke became CEO of homebuilder Ryland Group Inc.

So far, Schipke says he hasn't felt any pressure from Price and Steinhart, who couldn't be reached for comment on his management. Schipke says he has yet to talk to Steinhart, though he has met with Price three or four times over the past year. "I've never had any interference," Schipke says.

With his authority clear, Schipke went about shoring up Sunbeam-Oster's executive ranks. To bring in fresh ideas, he hired a half-dozen top executives from the outside, including Paul M. O'Hara, the former chief financial officer of Fruit of the Loom Inc., who took over as Sunbeam's CFO. Schipke has also given his line managers far more independence. During Kazarian's tenure, some senior executives say they were not given enough autonomy. "Paul interfered much more with daily operations," says James J. Clegg, president of the household-products division.

Schipke also extended Sunbeam's product lines. Sunbeam is No. 1 in an eclectic range of products, such as heating pads, elec-

tric blankets, bathroom scales, gas grills, and hair clippers. But staying ahead of the pack isn't easy. The household-products market is constantly in flux because of finicky consumers and fast-moving rivals such as Black & Decker Corp. and Hamilton Beach/Proctor-Silex Inc. To expand its share of the electric can opener market, Sunbeam recently introduced a version with a new feature: a detachable blade for easy cleaning.

The quest to bolster product offerings has also taken Sunbeam into entirely new household-gadget categories. Responding to consumer fascination with breadmaking, Sunbeam recently introduced its own breadmaker to go up against products offered by such rivals as Welbilt Corp. and Panasonic Co. In January, Sunbeam will also launch its own line of coffeemakers.

Acquisitions are another key to Schipke's expansion plans. In the past, Sunbeam-Oster has bought such companies as Charmglow Inc. (grills) and Borg Scales. Now, analysts speculate that Schipke wants a maker of health-care products for the home. That would complement Sunbeam-Oster's line of personal-care products, which include blood-pressure monitors and humidifiers.

**GOING ASIAN.** Schipke is also looking for growth overseas. Sunbeam-Oster is building on its strength in Latin America by offering more products to its existing markets in Venezuela, Peru, and Mexico. And it's eyeing potential joint ventures in the fast-growing economies of Asia. Schipke's goal: to increase international sales from 17% to 30% of revenues within three years.

Despite his initial success, Schipke faces big challenges. In an era of waning brand loyalty, Sunbeam-Oster has to keep up a steady flow of new products to keep consumers happy. And its retail customers can afford to be a lot choosier when it comes to stocking their shelves, now that almost every appliance maker is sprucing up its product line with new offerings and features to lure consumers.

And then there's Price and Steinhart. There has been speculation among analysts that the pair may be tempted to sell its stake to one buyer rather than cash out gradually by selling shares to the public. That could unsettle other shareholders. Worse for Schipke, it could bring in an investor who might be far more meddling. For now, Schipke doesn't believe Price and Steinhart are ready to sell. "They believe the company has further to go," he says. Still, he recognizes that the duo are not in the business of holding companies. Just as with Kazarian, keeping Sunbeam's biggest investors happy may be the key to Schipke's survival.

*By Gail DeGeorge in Fort Lauderdale, Fla.*



**SCHIPKE HAS A PARTICIPATORY STYLE OF MANAGEMENT**



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## HELLO, WESTERN UNION? FIRST DATA CALLING

But the suitor must first outbid Forstmann Little

It's not the most glamorous business in the world. In fact, its very name is synonymous with obscurity: the back office. But if processing paperwork is low-profile work, it has also proved highly lucrative for First Data Corp., a spin-off of American Express Co. If you have a credit card from Visa or MasterCard, own mutual-fund shares, have sent an AmEx MoneyGram, or have paid a hospital bill of late, chances are that First Data, based in Hackensack, N.J., churned out your statement or collected your payment. "People don't see us," says First Data Chief Executive Henry C. Duques, "but we have a huge behind-the-scenes impact."

That impact generates results. Revenues have soared 45%, to \$1.5 billion, since 1991, the last year AmEx owned First Data, while earnings jumped 47%, to \$173 million. Salomon Brothers Inc. analyst James F. Kissane expects another profit rise of 20% this year, to \$208 million, on revenues of \$1.7 billion.

**DISTANT SECOND.** To keep the growth coming, First Data is trying to acquire Western Union Financial Services Inc., the profitable operating unit of New Valley Corp., which is under Chapter 11 bankruptcy protection. And that has Duques duking it out in a high-stakes bidding contest with none other than Forstmann Little & Co., the New York-based leveraged buyout firm. In June, First Data bid \$660 million for the money-transfer company, topping Forstmann Little's \$650 million offer. The final round of bidding is set for September.

First Data hardly seemed the kind of contestant to take on an LBO heavyweight under AmEx. While First Data did not process AmEx cards, customers such as Visa and MasterCard were irked that it was owned by a rival. Since the spin-off, First Data has grown



CEO DUQUES: "WE HAVE A HUGE BEHIND-THE-SCENES IMPACT"

to dominate the industry, handling more than 70 million transactions annually. Meanwhile, First Data has moved into other financial back-office work, such as preparing mutual-fund statements and providing health-care and cable-TV billing.

Acquiring Western Union is key to sustaining that growth. First Data has aimed for the money-transfer business since its spin-off, boosting its share of the \$450 million market from 3% to 10%. But it is a distant second to Western Union, which, with 24,000 agents worldwide, holds 85%. And it's a fast-growing business, thanks to big numbers of immigrants who send money home. Kissane expects annual growth to top 15%.

But while Western Union dominates,

it's burdened with antiquated equipment. Operating margins run 26%, while Kissane estimates First Data earns 30% on its highly efficient transfer and bill-paying service. By modernizing Western Union and applying the same back-office savvy that he has put to card processing, Duques should squeeze greater profits from the far-flung network.

To do that, though, he has to win the battle. Forstmann won't comment on

Western Union. Although First Data's current bid tops Forstmann's—each bidder has also agreed to assume Western Union's debt and estimated \$400 million in pension liabilities—Forstmann may yet up its offer. Other bidders could also emerge. The three highest bidders will make final bids, with the winner announced Sept. 19. Analysts say the price could hit \$750 million.

**WAR PATHS.** A price tag that high could stretch First Data. While Forstmann has an estimated \$2 billion war chest for finance takeovers, First Data has only \$300 million in cash and just agreed to pay \$180 million in stock for Envoy, Nashville-based provider of credit-card services. Duques acknowledges that First Data

will have to boost debt, leaving Wall Street worried. With First Data's debt currently running at 35% of total capital, "the central questions are how much cost can be wrung from Western Union and how great are the savings," says David M. Togut, an analyst with Citicorp in First Boston.

Duques says immediate benefits will come from combining First Data's agent network with Western Union's. Salomon Kissane says that alone will save \$40 million, with an additional \$65 million from consolidating overhead. Duques also plans to expand sales of First Data's offering through Western Union.

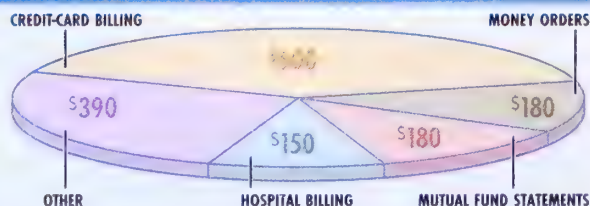
One thing Duques says he won't do is overpay. He scoffs at Wall Street fear that he will overleverage his company to win. "If we can find the leverage and cost savings to make this work, we drop out," he says. "We have a very good business that's growing three times faster than Western Union." Or, way or another, Duques' low profile days in the back office are coming to an end.

By Veronica Byrd in Hackensack, N.J.

### FIRST DATA'S KEY BUSINESSES

1993 RESULTS ► REVENUES \$1.5 BILLION, PROFITS \$173 MILLION

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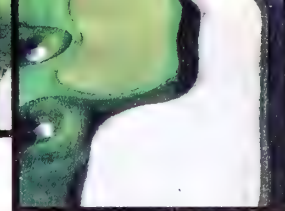
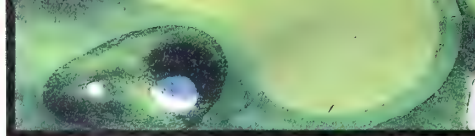
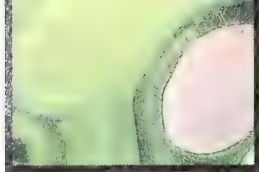
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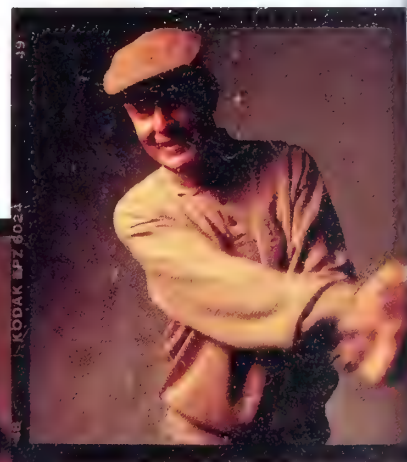
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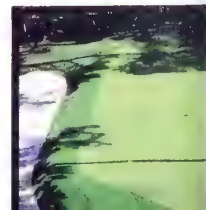
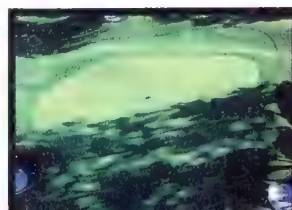
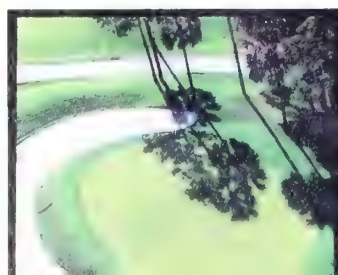


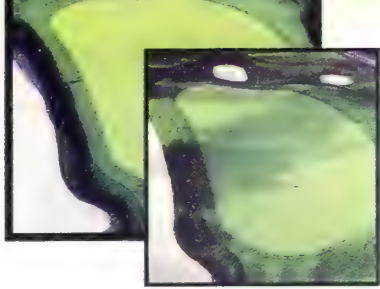
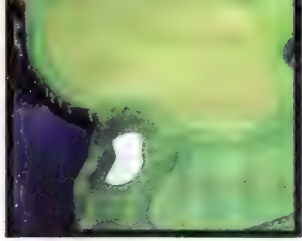
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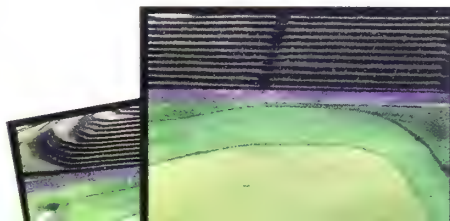
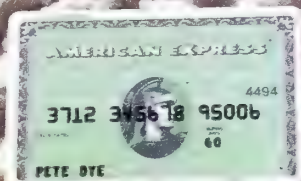
Golf is a mental game, and golfers are always nervous. So I constantly try to work on their idea of how a hole ought to be played. Nowadays the only ally I have is water; that's the only hazard they can't recover from. Sand is easy, but if you go into water you know

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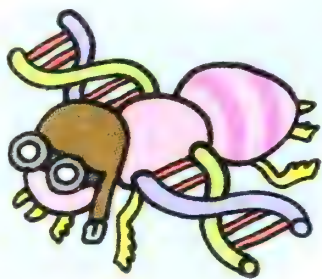




# Developments to Watch

EDITED BY NEIL GROSS

## FRUIT FLIES: THE LATEST BUZZ IN GENE THERAPY



**G**eneticists dream of a day when they can repair defective human genes to wipe out diseases. That goal is decades off, but research on insects offers intriguing leads. This summer, scientists at San Diego State University restored the gift of flight to genetically defective fruit flies by injecting new genes into fly embryos. Doctors are taking

note because defects in a similar human gene, which codes for the protein myosin, cause heart disease.

San Diego researchers caution that huge chasms separate insects from humans. They had to micro-inject up to 3,000 fly embryos to yield just one "cured" individual. Humans are more complex than flies, with whole batteries of genes coding for functions handled by a single insect gene. Still, laboratory chief Sanford Bernstein says there are important lessons. He can create the same kind of mutations seen in human genes, insert them into the fly, and then observe the muscle.

## AN ALTERNATIVE TO PROSTATE CANCER SURGERY?

**P**atients diagnosed with prostate cancer face agonizing choices. Since removing the gland can lead to incontinence, impotence, or both, many doctors hesitate to operate at the first sign of the slow-progressing disease. On the other hand, metastatic prostate cancer is very difficult to treat. So waiting until symptoms appear may be courting tragedy.

Researchers at George Washington University Medical Center and the National Institutes of Health have uncovered clues that may help postpone the need for surgery. They found that uteroglobin, a protein found in the prostate gland and other tissues, inhibits the ability of cancer cells to invade other connective-tissue cells in vitro up to 88% of the time. It's not a cure, but the protein may offer a way of containing the prostate cancer cells, which are found in nearly 15% of American men in their 50s. George Washington researchers have applied for grants to conduct follow-up studies with mice.

## THIS TINY VALVE KEEPS THE PRESSURE ON

**R**edwood MicroSystems Inc. in Menlo Park, Calif., makes a valve the size of your thumbnail. Small but mighty, it can close against a pressure of 3,000 pounds per square inch—a feat equal to lifting 10,000 times its own mass. Combined with tiny semiconductor sensors and other electronic circuitry, the microvalve can release minute quantities of chemical reagents with precision. That may allow scientists to reduce the necessary sample size for DNA sequencing and the amount of reagent required. Such gas microvalves are now undergoing trials in hospitals, helping to maintain pressure in the stomach

cavity as a surgeon operates through a tube or to regulate flow of anesthesia during the operation.

The key to precision is a flexible silicon membrane. This essentially a tiny pit etched in silicon and sealed between two Pyrex wafers. When heated, fluid in the pit expands, causing the membrane to flex. That precisely controls the flow of gas through a network of channels and holes in the wafer. Redwood has a three-year, \$7 million cooperative research and development agreement with Lawrence Livermore National Laboratory to make valves for portable environmental monitors and other instruments.

## HYBRID SPUDS THAT COULD AVOID THE IRISH POTATO'S FATE

**T**he decimation of the Irish potato crops in the 1840s was caused by a fungus dubbed "late blight." It is primarily transmitted in the "tubers," or small potato pieces cut and planted to create a new crop. Now, U.S. potato growers are shuddering at news from the University of Florida: Although fungicide has kept one strain of the fungus under control in the U.S. for decades, a second strain has emerged and is spreading quickly. Researchers fear it could mate with the original strains to produce organisms that would threaten the \$5 billion annual American potato crop. Both strains have been found in Florida and other states, where they have ruined entire crops. Now, the Florida researchers are worried that spores created by the mating strains of the fungus could live in soil year-round—and be resistant to fungicides.

At least one biotech company believes it can help stem the spread of the disease. Escagenetics Corp. in San Carlos, Calif., has painstakingly developed so-called true potato seeds, which it can guarantee as disease-free. The company says some of its hybrid seeds appear to be resistant to late blight and could help farmers grow potatoes even in diseased soil.

## 'CASSIE' HAS HER THINKING CAP ON

**L**ast month, scientists gathered at the State University of New York at Buffalo to think about thinking—real and artificial. Many were startled by the logical flights of Cassie, an artificial intelligence program developed at Buffalo. Most AI programs have no more smarts than a bird brain. Cassie is like a growing child, using English to describe thoughts.

Cassie's creators, computer scientists Stuart C. Shapiro and William J. Rapaport, hope "she" will be able to dig through reams of information and answer questions. In some cases that may mean unlearning her programming. For example, while perusing the King Arthur legend, she stumbled on the word "smite." She was told it means to kill by hitting hard. Later, she read that King Arthur got smote back in a fight and didn't die. So she deduced the word's real meaning: "to hit very hard." Ultimately, Rapaport believes AI systems will develop a kind of consciousness. Cassie hasn't yet, he concedes, "but there's no reason why she couldn't."





## IN THIS CHIP MEET PENTIUM?

Start Cyrix says its newest will outdo Intel's best

It takes just a little hubris to pull off what Gerald D. Rogers has. In six years, his startup, Cyrix Corp., has earned a burr under the saddle of microprocessor king Intel Corp. Even so, the rows arch when Rogers boasts that the Cyrix design will outperform Intel's latest Pentium chip. Is it bluster or not? Linley Gwennap, who tracks the microprocessor business for market researcher MicroDesign Resources Inc., says that the Cyrix chip, dubbed M1, is in the leading edge of just about everything.

Out-opping Intel would be the capstone to one of the more audacious strategies in chip industry history. After lining up just \$4 million in venture funding, Rogers left Texas Instruments Inc. in 1987 to do the impossible: crack Intel's monopoly in microprocessors for IBM-compatible personal computers. The task looked quixotic because, unlike Advanced Micro Devices Inc. (AMD), Rogers didn't have a license from Intel to make these silicon brains. He had to create a "workalike" chip from scratch, something that no one had accomplished.

**FOUL-UP.** Cyrix started out selling illegal math coprocessors until it found its first microprocessors, then quickly went public last July—and winter ended up in deep trouble: in short on product just as it was suing Intel in court. A year later, under which Dallas-based TI fabricated chips for Cyrix fell apart—and its other manufacturing partner, SGS-Thomson Microelectronics in Carrollton, Tex., had a production glitch. It was down to survival, Rogers recalls.

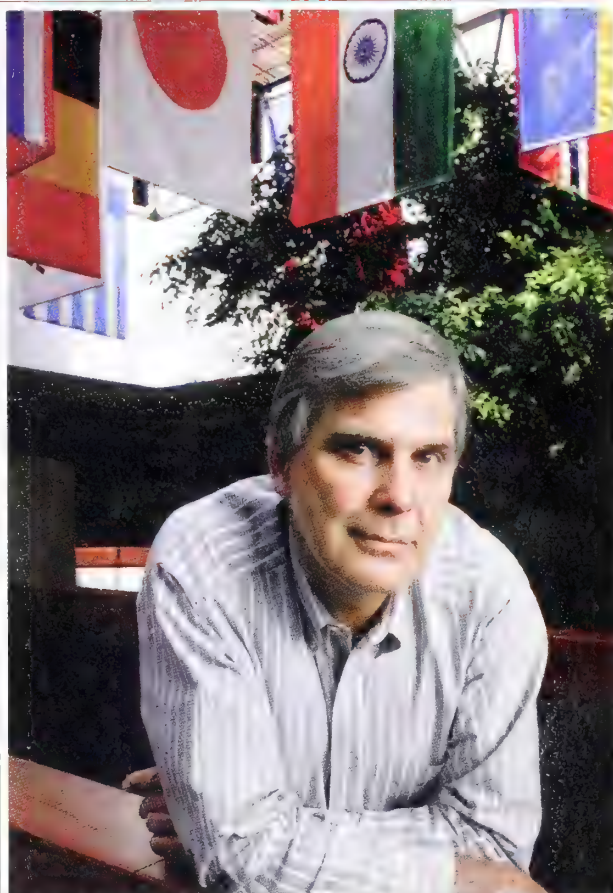
Many how fast things change. Cyrix won the lawsuit—along with two other ones, while a settlement was settled at no cost. In April, Rogers signed a manufacturing alliance with IBM Microelectronics. And with support assured, Cyrix in July landed its best customer yet: AST Research Inc.,

a top-five PC maker. "They just keep knocking down roadblocks," says Thomas A. Thornhill, an analyst at Montgomery Securities. Declares Rogers: "We couldn't be in a better position."

In September, Cyrix plans to uncork a computer simulation of its M1, giving AST and others a peek at what IBM and SGS-Thomson should deliver by yearend. Rogers is banking on this chip and customized spin-offs of it to help multiply Cyrix' 3% share of the microprocessor market: By 1997 he wants 20%, double that now held by AMD, Intel's closest competitor. Overly ambitious? Maybe. Mark L. Edelstone, an analyst with Prudential Securities Inc., points out that Intel will be determined to maintain market share "at all costs."

Rogers thinks he has a shot, however, if he can avoid getting mauled by Intel's plans to slash prices by up to 40% (BW—Aug. 22). Cyrix launched more sophisticated versions of its 486 family this year, and sales are taking off. Second-quarter revenues jumped 83%, to \$58.7 million, lifting profits 28%, to \$9.2 million. Thanks to IBM, there's plenty more capacity—more than \$1 billion worth of chips over the next five years, says marketing director Stephen L. Domenik. "Now we just have to figure out how to sell them all."

There's the rub. Given Intel's price cutting and massive marketing muscle, big accounts could be tough to come by. Even before Intel's new aggressiveness, Cyrix had to grant 30% discounts to stay below Intel's volume-

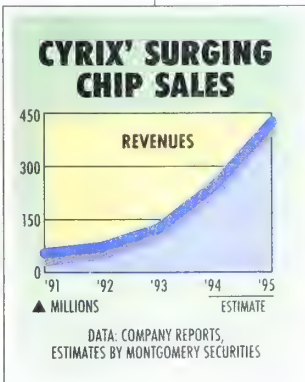


CEO ROGERS: "WE COULDN'T BE IN A BETTER POSITION"

pricing programs—and even that isn't always enough. "Cyrix has a good design capability," says Eric Harslem, vice-president for engineering at Dell Computer Corp. "But for now, we're a 100% Intel customer."

**RAPID PULSE.** To break the logjam, Cyrix is counting on the M1 to snatch the performance lead from Intel. The first version should run at 100 megahertz or more—at least matching the "heartbeat" of Intel's fleetest Pentium. But Cyrix engineering head Kevin C. McDonough says the M1 will romp through programs more than 30% faster—enough of an edge, he hopes, that customers will line up even though M1 won't fit the same socket as a Pentium. The trick behind the processing boost, borrowed from reduced instruction-set computing chips, is called out-of-order execution. While both the Pentium and the M1 will chew on two software instructions simultaneously, the Pentium must handle them in the correct order; any mix-up, and processing stops until the device sorts things out. The M1 should process instructions in almost any order.

Assuming the chip is shipped by yearend, Rogers hopes to sell as many as a million M1s in 1995. That's a pittance





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compared with the 25 million to 30 million Pentiums that Robertson, Stephens & Co. analyst Daniel L. Klesken expects Intel to ship. Still, if the M1 lives up to its superstar advance billing, says Michael Feibus, an analyst with Mercury Research, "I wouldn't be surprised if Cyrix is No. 2 in fairly short order," moving ahead of AMD in "X86" microprocessors. That could happen by late next year, adds chip-watcher Ken Lowe at market researcher Dataquest Inc.

Nonsense, says Edystone of Prudential Securities. AMD also is racing to polish off a simulation of its Pentium clone, called K5, in September. Unless it stumbles, it will continue as Intel's "most lethal competitor," he says. AMD has two advantages. After also winning in court, it can now legally use Intel technology in its chips—and AMD makes its own.

**ROOM TO RUN.** That's why IBM's backing looms large. A strong marketing push by IBM Microelectronics could be the stamp of approval that will convince skeptics such as Dell Computer—especially if Cyrix chips pop up in IBM's own PCs. Although the deal pits IBM and Cyrix against each other in the marketplace, it's a big improvement over past alliances.

In those, Cyrix handed over the rights to its designs—and created major competitors. For instance, Cyrix claims that TI was selling most of the chips it made and not delivering a fair share to Cyrix. The partnership dissolved in December in an exchange of lawsuits. So, this time, Rogers put up cash: He agreed to pay \$150 million over five years to reserve a portion of IBM's chip-making capacity, and IBM agreed not to sell any more than the number it delivers to Cyrix.

With room to run, Rogers has turned his designers loose. Their new job is to create souped-up versions of 486 and M1 chips that can command margins closer to Intel's 58%. For example, one design will combine a microprocessor with a modem and an interface for a CD-ROM drive—a ready-made brain for multimedia PCs. "By 1996, 50% of our chips had better be not totally compatible with Intel products," Rogers says. "That way, we can give our customers a better advantage."

"They've got a pretty good road map, and I think they have the engineering to pull it off," says David F. O'Connor, executive vice-president of Zenith Data Systems. Talk like that just goads Rogers into thinking bigger. He has already bought 20 acres across the street from his office for the day when Cyrix decides it needs its own factory to keep up with demand.

*By Peter Burrows in Dallas, with Robert D. Hof in San Francisco*

# Marketing

RETAILING

## TIFFANY'S SPARKLE MAY HAVE BLINDED INVESTCORP

Success with the retail gem hasn't been matched by other buyouts

**A** decade is a lifetime in the buyout business, and most of the out-fits that engineered the big retail deals of the 1980s have long since turned to other things. But Investcorp, the Bahrain-based investment bank with hefty assets and a low profile, has continued to snap up retailers. Founded in 1982 by Chase Manhattan banker Nemir A. Kirdar, the firm did its first big deal when it bought Tiffany & Co. in 1984 and took it public in 1987 at a profit of more than \$100 million. Since then, Investcorp has bought retailers with an ardor that would make Robert Campeau blush.

After spending billions on acquisitions, the firm has quietly assembled a massive retailing empire. Its holdings range from the tony to the homey—from Saks Fifth Avenue and Gucci to floor-covering retailer Color Tile and the Circle K convenience-store chain (table)—as well as

just two other units public—the Saks & Recreation Inc. chain, in 1992, and Catherines Stores Corp., a large-size apparel chain, in 1991. In 1993, Investcorp return on equity slipped to 19%, the lowest in its history, from a 1988 peak of 31.6%. Return on assets fell to 4% down from 7.5% in 1990. Net income reached \$67.3 million, a 7.3% increase from 1992 but almost flat with 1991 results.

### MUM'S THE WORD

Neither Investcorp nor any executives of the companies it owns would speak to *BUSINESS WEEK* for the record. Although Investcorp is publicly traded on the Bahrain Stock Exchange, a spokesman says the firm is "adamant" about not discussing its investments. Not that the company is likely to be feeling much about its performance. Unlike other buyout firms, which are under pressure to flip a company or take it public so they can provide quick returns to investors, Investcorp has patient capital behind it.



**CEO KIRDAR RULES A \$6.2 BILLION EMPIRE, BUT RETURNS HAVE BEEN SLIPPING**

stakes in some non-retailing properties, such as trucking company Burnham Service Corp. and Dellwood Foods Inc. But if Investcorp hoped to duplicate the Tiffany magic with its subsequent retail acquisitions, it has been sorely disappointed. "Tiffany was a comet that went through the atmosphere and blinded them for a long time," says a former Saks executive. "Investcorp thought every deal was going to be a Tiffany."

Instead, Investcorp has learned some hard lessons about the vagaries of retailing—in particular, that it takes merchandising savvy, not just financial engineering to turn around a beleaguered chain. With several of its properties either losing money or reporting declining earnings, it has so far been able to take

vestcorp has patient capital behind it. The firm's investors include members of the Saudi royal family and other wealthy Middle Easterners eager to place to park their money. Last year, Prince Alwaleed Bin Talal Al-Sudani bought an 11% stake in Saks from Investcorp. "Investcorp's whole purpose for being is flight capital," says Robert Taylor, director of corporate bond research at Salomon Brothers Inc. "They guys are in no hurry to liquify."

Still, they can't be delighted with Investcorp's results of late. In May, the firm sold New York Department Store Puerto Rico, a moderate-price chain to Melville Corp. at a \$100 million loss, estimates Kidder, Peabody & Co. analyst Michael Exstein. But its biggest ve-



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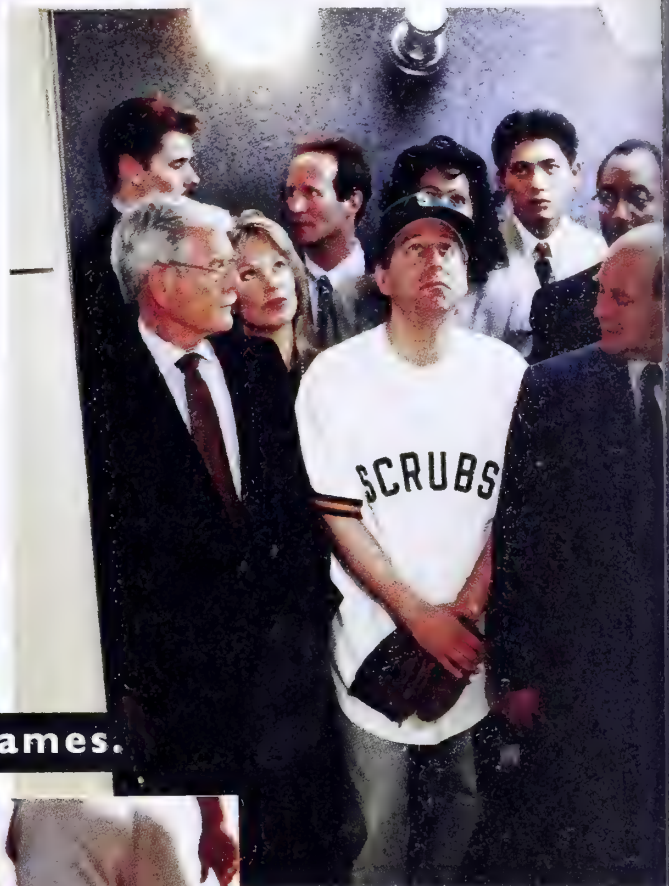
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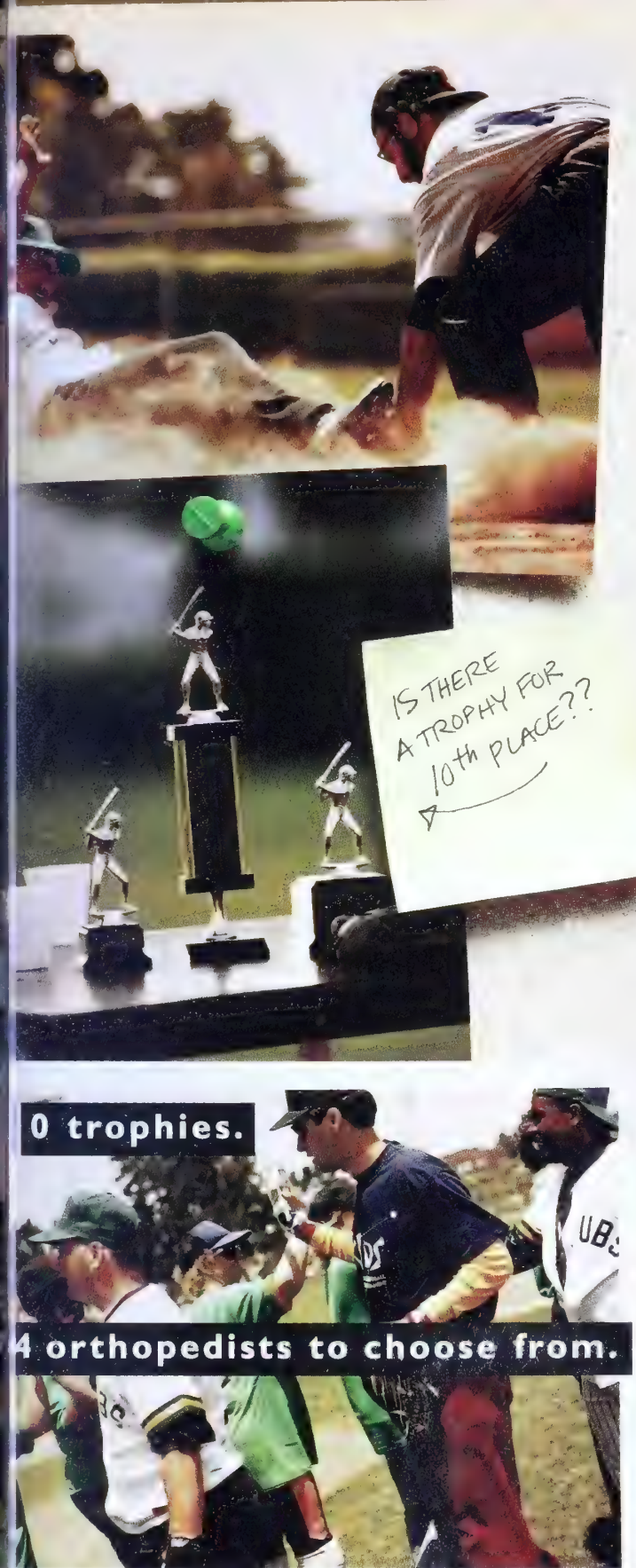
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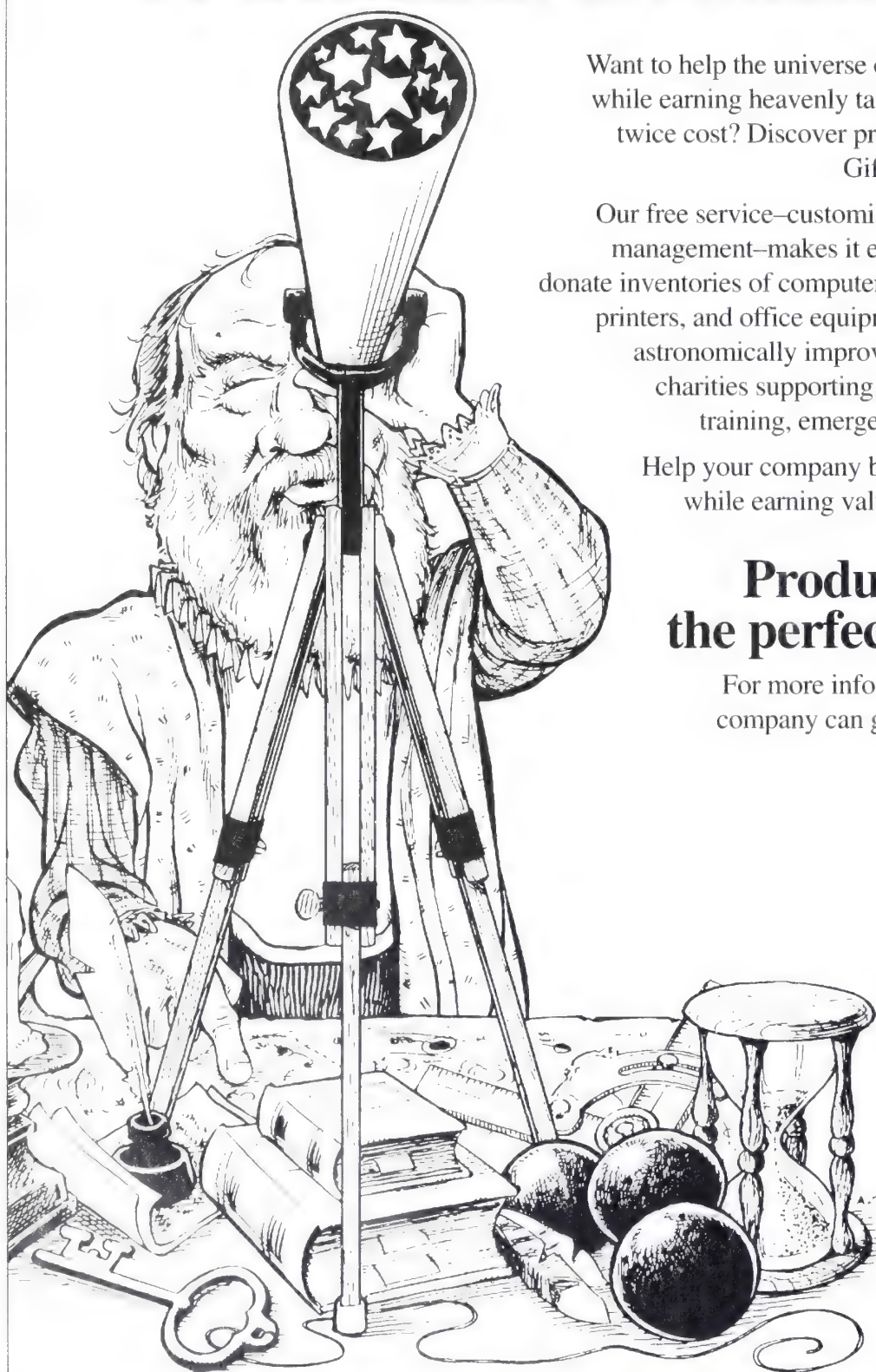
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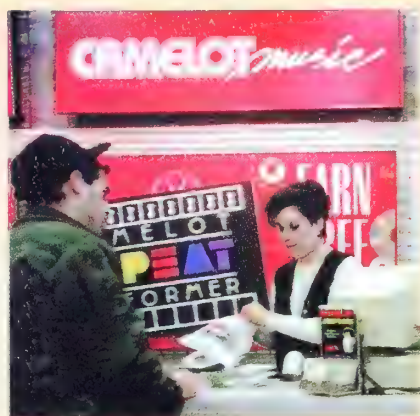
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## A SAMPLING OF INVESTCORP'S INVESTMENTS



**GUCCI** Bought first 50% of luxury-goods company for estimated \$160 million in 1988, remainder for roughly \$170 million last fall. Gucci lost money in 1993.

**COLOR TILE** Acquired 800-store carpet-and-tile chain for \$450 million in 1989. Home-store sales fell in 1993, rebounded in 1994. Company may go public.

**SAKS FIFTH AVENUE** Bought from B.A.T. for \$1.6 billion in 1990. Since then, has cut costs, laid off staff, opened clearance centers, closed some stores.

**CIRCLE K** Paid \$400 million in 1993 to buy convenience store chain, which had been in bankruptcy since 1990. Still not profitable, but sales are on the mend.

**CAMELOT MUSIC** Bought 368-store music chain for roughly \$350 million in October, 1993. Company did \$420 million in sales in 1993 and is profitable.

**CARVEL** Acquired 528-store East Coast ice cream chain for \$80 million in 1989. Money-losing chain is now trying to sell products through supermarkets.

DATA: BUSINESS WEEK, COMPANY REPORTS

come in the glitzy end of its portfolio. Saks, former executives say, Investcorp had counted on cutting costs, ending operations, and going public. Instead, the firm has watched stagnate and earnings shrink. In when Investcorp shelled out \$1.6 billion to buy Saks from British American Tobacco Industries PLC, the retailer was earning \$111 million on \$1.3 billion in sales. The following year, an intercom report reported that Saks's earnings fell to \$90 million on flat sales. In Investcorp gave Saks a \$300 million capital infusion that went toward financing debt and renovating stores.

**FINANCIAL POWER.** Results have improved what since then. For fiscal 1992, ended in January, 1993, Saks reported sales had topped \$1.3 billion—though it didn't specify by how much—operating income had jumped 40%. But don't expect a public offering, says Errol Glasser, a former investment banker who bid for Saks. "[Investcorp] paid an incredible amount of money for that business," he says. In fact, former Saks executives say Investcorp overpaid by \$300 million. "You're not going to get out of it above your cost any time soon," says Glasser.

The same may be true of Investcorp's investment. The firm bought 50% of Italian luxury-goods maker Gucci for \$1 billion in 1988 and ran into problems with Maurizio Gucci, the chief executive and a grandson of the company's founder. He eliminated Gucci's whole-

sale business, and Investcorp was irked when he pledged his Gucci stock as collateral for personal debts. In 1992, Gucci lost some \$30 million on sales of \$180 million. After a legal battle, Investcorp bought Maurizio out for an estimated \$170 million last fall. The wholesale business has been reopened and William Flanz, a member of Investcorp's management committee, is now CEO. Dawn Mello, president of Bergdorf Goodman Inc. and Gucci's former creative director, says "there's a very definite turnaround." An Investcorp spokesman says Gucci is now profitable.

Yet another ritzy Investcorp brand languishes in the red. In 1987, the firm bought Chaumet International, a bankrupt French jeweler. At the time, an Investcorp director said Chaumet could go public in five years if it had "been turned around." It hasn't. Chaumet lost \$12 million on \$29 million in sales in 1993.

Now have things turned out swimmingly at the more prosaic end of Investcorp's pool. In 1989, for example, it bought Carvel Corp., a troubled 528-store ice cream chain, for \$80 million. "It is still not profitable, and having cash-flow problems," says a Carvel insider. Carvel CEO Steven V. Fellingham, a former Kentucky Fried Chicken Corp. executive, has tried to jump-start sales by selling Carvel cakes and ice cream through supermarkets and stadiums.

Another question mark is Color Tile, the \$555 million carpet-and-tile retailer Investcorp bought in 1989. Under Investcorp, the chain has boosted operating

margins and closed unprofitable stores, but sales in stores open a year or more fell 4.3% in 1993. Sales are now ticking up, and Salomon's Taylor thinks Investcorp will try to take Color Tile public within a year. But a former executive at Knoll International Inc., which sold Color Tile to Investcorp, says the chain faces awesome competition: "We sold [Color Tile] because our chairman went to a Home Depot and got scared to death."

**BREAKING EVEN.** Investcorp does seem to be making headway with one big acquisition. Last year, it paid \$400 million to buy Circle K, which had been in bankruptcy since 1990. Investcorp took the company out of Chapter 11 last summer, and sales have been on the rise. "They have been losing money, but they're close to the breakeven point now," says Burt P. Flickinger III, a consultant at A.T. Kearney & Co. He praises CEO John F. Antonicelli for consolidating stores and stocking fresh juices and Blimpie sandwiches.

Despite the challenges, Investcorp hasn't stopped funneling petrodollars into American retailing. Besides buying Circle K in 1993, it ponied up some \$350 million for Camelot Music, increased its stake in Mondie, a German apparel maker, and paid \$250 million for 85% of Thorn Lighting Group, a British lighting-fixture manufacturer. Earlier this month, it paid \$285 million for Star Market Co., a Boston supermarket chain. Some hard knocks in retailing notwithstanding, you can't keep a wealthy buyout firm down.

By Laura Zinn in New York, with Charles Hoots in Paris, and bureau reports

PHOTO: GUCCI; SAKS: TONY SAWYER/ST. MARK; CAMELOT: SABA



# AFFORDABLE INSURANCE THAT WORKS WHEN YOU CAN'T

If you're in the market for individual disability insurance, you could be in for some surprises. Claiming that they are not making enough money in the business, insurers are revamping many of their policies. The result is both good and bad news for consumers. On the downside, women, certain professionals, and other people deemed to be higher risks will have to shell out more money. For example, insurers are charging more to customers in states such as Florida and California and are reclassifying professions so that those with higher claims, such as dentists, pay more. The most dramatic change occurred earlier this year when major carriers switched to gender pricing, charging women an average of 25% more on premiums depending on age because they are more likely to become disabled.

If you are in one of these groups, you may want to buy a policy now, before all insurers go ahead with changes. For example, there is still a window of opportunity for women to lock in gender-neutral rates: New York Life Insurance, for one, hasn't made the switch yet.

But some of the changes could be beneficial to buyers—and might make the coverage more affordable. Individual disability insurance has always been very expensive. Policies often cost as much as 2% of annual income a year—a stiff \$2,000 in premiums for someone making \$100,000. One big problem was that insurers sometimes made it impossible for policyholders to refuse certain benefits that added to the cost. On top of that, agents were trained to



push optional riders that would be needed only in the worst possible scenario.

Now, some insurers are starting to repackage high-end policies, allowing customers to leave off benefits they don't want to pay for. They are also encouraging agents to show clients where they can cut to save on premiums. "In the 1990s, it has become clearer that there has to be a balance between cost and coverage," says Ralph Christiana director of disability op-

erations at Provident Life & Accident Insurance. Buying insurance is always an odds game, but if you are willing to "bet with the odds," you can drop some of the most cherished provisions of the high-end policies and really bring down the premiums, says Robert Littell, an Atlanta insurance consultant.

**TIME SQUEEZE.** One recent example: While all top-of-the-line policies for the last 20 years have been "noncan-

celable," means the insurer can stop covering you not your premiums, Provident plans to introduce a "guaranteed renewable" plan to market. The company won't be able to drop you it can increase premium your class of insured. anteed renewable policy which are being considered by other major carriers cost 15% to 20% less than noncancelable versions, Provident's Christiana.



shopping for a new policy the first thing you'll want to know is how much coverage you need. People who have employer-sponsored group disability insurance typically need additional coverage, says Harvey Sobel, a partner with benefits-consulting firm William M. Mercer.

98% of 1,400 large companies recently surveyed by Mercer offer long-term disability benefits to their employees. But some workers—either because their group policy is inadequate or they don't want to pay for it—will need individual coverage in the future and not qualify for it at that time might want to purchase all supplemental policy gives them the option to forego insurance.

Twenty percent of your income is the amount most insurers will allow you to receive since they don't want to provide an incentive for you to stop working. But given that benefits from individual policies are not taxed, a 60% reduction can equal up to 90% of original pretax salary. If you could live comfortably on less income than you are earning home, consider scaling back on the monthly benefit. Two-income couples may require as much coverage as they are saving a lot of money and could get by on one person's salary.

If you skip now to make your policy more affordable, you should still ante up for a waiting period to purchase coverage later. This is especially true for young people—they can boost coverage when their income rises.

Other than limit the monthly benefit, it often makes sense to scale back on the time period covered. The best plans provide lifetime benefits—something a young person who lacks a retirement fund ought to consider. Most people buy policies that last them to age 65. Another option is to purchase a term policy. A 50-year-old can save \$800 a year on premiums by choosing a 5-year plan instead of a 10-year plan, Littell.

## HOW TO SAVE ON DISABILITY INSURANCE

- ▶ **Reduce the length of time you are covered.** You can buy lifetime coverage, but if you have adequate savings to supplement Social Security, you don't need benefits past age 65.
- ▶ **Settle for a smaller monthly benefit.** Most people seek to have 60% of their income replaced. But you could save if you can get by on, say, \$2,000 a month instead of \$3,000.
- ▶ **Lengthen the time you have to wait until you begin to receive benefits.** Most people choose 90 days, but if you have enough savings to get by, wait six months or a year.
- ▶ **Allow tougher standards to qualify as disabled.** Policies that pay benefits only if you are unable to perform any other "reasonable" occupation are less expensive than those that consider you disabled if you can't stay in the type of job you're already in.
- ▶ **Skip the cost-of-living adjustment (COLA) rider.** With little threat of inflation, you can feel more comfortable knowing you would receive the same benefit year after year.
- ▶ **Provide copies of your tax returns.** Some companies give you a 10% discount if you submit your last few years' returns.
- ▶ **Prepay premiums.** You may be able to get a 10% discount for doing the company this favor as well.
- ▶ **Ask for "list-billing."** If your agent signs up a few people at the same time, you may get up to a 20% discount.

DATA: BUSINESS WEEK

People with a big chunk of savings also may be able to stretch out the "elimination period," or the amount of time you must wait until you receive benefits. Ninety days is a good middle ground, but if you have enough savings to get by for six months or a year, you can cut costs.

**INCOME DROPS.** Another way to save—and one insurance companies are especially keen on lately—is for you to accept tougher standards to become eligible for benefits. Some policies pay only if you are unable to perform your own job or any "reasonable" occupation. But professionals, such as doctors and architects, have been encouraged to buy "own occupation" policies that allow them to receive full benefits when they can't work in their profession but are able to get some other kind of job.

Likewise, insurers are trying to sell professionals "residual benefits" riders. This way, the insurance company will make up the shortfall if you return to work but your income drops 20% or more.

The coverage may be less important for people with a set salary than it is for those who are self-employed. It could take them a while to build their business back up to its former level after a prolonged illness, says Michael Ginsberg, Paul Revere Insurance Group's director of sales.

ance Group's director of sales.

Insurance agents have also tended to recommend expensive cost-of-living adjustment (COLA) riders that allow benefits to rise with inflation. But such protection isn't so important today because inflation appears to be under control. And if inflation does kick in, you should be able to add back the COLA rider.

After you've decided on the structure of your policy, you might be able to save more on premium costs just by asking. Some offer a discount if you include several years of tax returns as income-verification documentation with your application or prepay a few years of premiums all at once. You also should ask your insurance agent for "list-billing." If you sign up with other lawyers in your firm, for example, you could save as much as 20%.

**HEALTHY REFUND.** If you still can't stomach paying thousands for a disability policy you may never use, you might want to consider a "return of premium" plan. Paul Revere offers a rider where you pay 15% more in premiums, but if you haven't been disabled after five years, you get a check equal to your first year's premium. For people who have some extra cash, Royal Maccabees Life Insurance has a plan where you pay about 50% more in premiums to get back 80% of all you paid after 10 years, less any claims. For example, a 35-year-old non-smoker could pay \$1,860 a year for 10 years and receive a check for \$14,350 tax-free from the insurance company. Return of premium turns a disability policy into a savings vehicle that doesn't offer a bad rate of return, says Littell. But few companies offer it, and some states frown on the plans.

By shopping around and making some intelligent choices, you can craft a policy without draining your bank account. Even if it isn't absolutely top-of-the-line coverage, in a crisis, some disability insurance is certainly better than none. *Amey Stone*

## A TALE OF TWO POLICIES

*For a 40-year-old nonsmoking Ohio male in a top-rated occupation earning \$60,000 a year\**

### FULLY LOADED

Lifetime payments, \$3,000 a month, 60-day waiting period, cost-of-living adjustment, residual benefits, option to buy more

**MONTHLY PREMIUM \$2,273**

### STRIPPED-DOWN

Payments last to age 65, \$3,000 a month, 180-day waiting period, no riders

**MONTHLY PREMIUM \$788**

\* INCLUDES COVERAGE IF CAN'T CONTINUE IN OWN OCCUPATION DATA: PROVIDENT LIFE & ACCIDENT



## Smart Money

### MAKE MONEY ON YOUR MORTGAGE

For most people, buying a home means seriously depleting your savings. But now there's a way to create a savings from the downpayment. Some mortgage lenders are courting new business with loans that let you sock away most of your downpayment in a fixed annuity, where it earns tax-deferred interest. The advantage: You'll be hedging against falling real estate values and accumulating savings to lower the total cost of your loan by 15% to 20%. "The downpayment is earning interest for you instead of sitting idly in the house," says Van Carter, president of Financial Integration, a Cleveland-based marketer of financial products and creator of the new loan (800 292-6688).

Here's how it works. If you take out a 30-year, 8.5% loan on a \$100,000 house, normally you would put down \$20,000 and finance \$80,000, on which you would make monthly payments of \$615. With an asset-integrated mortgage (AIM), which is offered by several mortgage lenders across the country, you would put down only \$5,000 and deposit the \$15,000 difference in a fixed annuity, which currently pays about 6.25% a year. Your loan would then be \$95,000 because you still have to pay the seller the balance. And you would have higher monthly payments of \$730. But over time, the annuity can offset your total cost, says Carter. After seven years, you would have paid out only \$58,120, as opposed to \$71,660 for a conventional loan (table).

Even though your loan is bigger, you also wind up with

more equity when you sell your home. If your property value stayed constant, after seven years you would still owe \$88,425 with the AIM loan and \$74,463 with the conventional loan. That means an equity of \$11,575 in the AIM-financed house, vs. \$25,537. But when you add in the \$23,200 annuity, the AIM loan gives you a total equity of \$34,775. Any rise in the value of the house merely sweetens the pie, but the annuity will keep growing even if the house's value declines.

**LIMITED LOSS.** The principal in the annuity remains collateral against your mortgage until you pay it off or sell the house. Then you have four

choices: You can keep the annuity growing; cash it out—only the interest will be taxed; turn it into a stream of monthly income payments over the years; or roll all or part of it into a downpayment for another house. If you default on the loan, you will lose the principal in the annuity, but the interest is still yours to keep.

These annuities are handled only by triple-A rated insurers, but if the company gets downgraded, the annuity can be transferred. Borrowers eligible for Federal Housing or Veterans Benefits Administration loans, who put down only 5% with the government's help, would not be eligible for such loans.

So far, the mortgage/annuity plan has drawn the most interest from two groups among his clients, says Peter Grum, executive vice-president of Hamilton Financial in San Francisco (800 541-

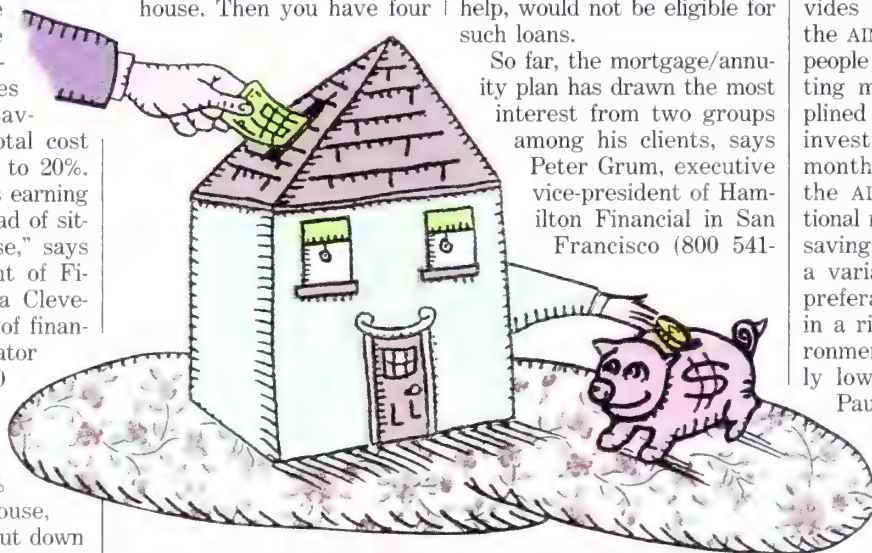
0024), one of several lenders offering government approved AIM loans in 26 states. Wealthy clients like it because they can maximize their advantage. With a larger loan they get a greater deduction and the annuity grows tax-deferred. "They can get a \$1 million loan with only \$50,000 down," he says. AIM loans are also proving popular as a way to help a child buy a home. "The parents or grandparent can put money in the annuity as a gift," says Grum. "They have easier access to it with a conventional downpayment because they can touch the interest."

**KEY QUESTION.** Since it provides a forced savings plan, the AIM loan makes sense for people who aren't already putting money away. But disciplined savers might do better investing the difference between monthly payments between the AIM loan and a conventional mortgage in some other savings vehicle. For example, a variable annuity might be preferable to a fixed annuity in a rising-interest-rate environment. "We're at historically low interest rates," says

Paul Haveman, vice-president of HSH Associates, publishers of mortgage information. "Why would I want to lock in at the end of the scale? The years is a long time."

Among those lenders offering the AIM mortgage is Bancplus in San Antonio (770-4246), Directors Mortgage Loan in Riverside, Calif. (442-4966), Inland Mortgage in Indianapolis (800 284-4444) and Keycorp in Cleveland (487-8334). You can also obtain information from the Federal National Mortgage Assn. (7-FANNIE), which has agreed to buy conforming AIM loans for the secondary market.

If you wouldn't otherwise invest your money, it might be worth locking in part of the downpayment on your new home at 6.25%. At least you'll be earning something extra down the line—you'll know in advance how much it will be. Pam B.



### HOW A MORTGAGE WITH ANNUITY COMPARES

Assume the purchase of a \$100,000 home with a downpayment of \$20,000 and a 30-year mortgage rate of 8.5%

|                               | Conventional mortgage | Asset-integrated mortgage |
|-------------------------------|-----------------------|---------------------------|
| <b>CASH DOWN ON HOUSE</b>     | <b>\$20,000</b>       | <b>\$5,000</b>            |
| <b>CASH TO ANNUITY</b>        | <b>0</b>              | <b>\$15,000</b>           |
| <b>LOAN AMOUNT</b>            | <b>\$80,000</b>       | <b>\$95,000</b>           |
| <b>MONTHLY PAYMENTS</b>       | <b>\$615</b>          | <b>\$730</b>              |
| <b>PAYMENTS AFTER 7 YEARS</b> | <b>\$51,660</b>       | <b>\$61,320</b>           |
| <b>INITIAL MONEY DOWN</b>     | <b>\$20,000</b>       | <b>\$20,000</b>           |
| <b>TOTAL OUTLAY</b>           | <b>\$71,660</b>       | <b>\$81,320</b>           |
| <b>MINUS ANNUITY</b>          | <b>0</b>              | <b>\$23,200*</b>          |
| <b>PAYOUTS AFTER 7 YEARS</b>  | <b>\$71,660</b>       | <b>\$58,120</b>           |
| <b>PAYOUTS AFTER 15 YEARS</b> | <b>\$130,723</b>      | <b>\$113,274</b>          |
| <b>PAYOUTS AFTER 30 YEARS</b> | <b>\$241,408</b>      | <b>\$184,632</b>          |

\* Assumes annuity pays current rate of 6.25% annually

DATA: FINANCIAL INTEGRATION INC.

# TECHNOLOGY REVOLUTION

Illustration by Victoria Kann As seen in Business Week, May 23, 1994 Issue

## *The Technology/Business Interface*

Place: McGraw-Hill World Headquarters, New York City

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| BILL TO AMERICAN EXPRESS |  | <input type="checkbox"/> MASTERCARD  | <input type="checkbox"/> VISA      |
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| SIGNATURE                |  |                                      |                                    |

**CANCELLATION POLICY:** All cancellations must be received in writing. Those postmarked after September 30, 1994 will be subject to a service charge of \$150. Registrants who fail to attend and do not cancel prior to the conference are liable for the entire registration fee. You may, if you wish, send a substitute. **McGraw-Hill LIABILITY:** In the event of cancellation of the conference for any reason, McGraw-Hill's liability is limited to the reimbursement of any prepaid registration fee.



# EXECUTIVE PROGRAMS





It's the dog days of August, and the boys of summer are (sigh) on strike. What's a certifiable baseball fanatic to do? Fans with a multimedia computer may be able to get over the blues faster than most. *Total Baseball* from Creative Multimedia, Microsoft's *Complete Baseball*, and *Baseball's Greatest Hits* from Voyager Software chronicle the sport's storied past on CD-ROM. Fans can pore through statistics and vintage photographs. All three disks include memorable radio broadcasts, and two of them pack video highlights.

*Complete Baseball* (\$60) is one of the best CD-ROMs of any

## BASEBALL CD-ROMS THAT MAY EASE THE PAIN

able in the morning paper. The service costs \$1.25 per day in the U.S., \$2.25 in Canada. Microsoft is waiving the fee during the strike and serving up labor updates.

I fancy myself a knowledgeable fan. But browsing past a photo of Brooklyn Stars pitcher Candy Cummings, I learned

### Software

Microsoft doesn't offer everything on this nitpicker's wish list. I wanted a list of trades under each player's stats. And the disk doesn't include the kind of search functions that would quickly settle barroom arguments.

Creative Multimedia's *Total Baseball* (\$30, Macintosh and MS-DOS) does offer search capabilities, and

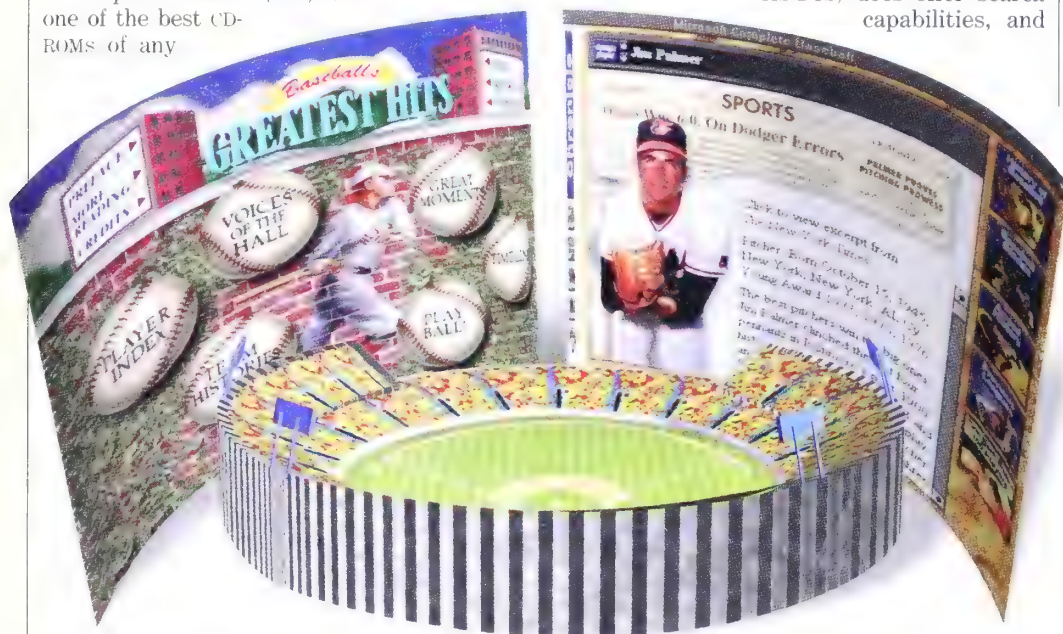
perlinked text that lets scamper to a related topic.

*Total Baseball* doesn't include videos, and its audio clips riddled with inappropriate tures. For example, you hear Chris Chambliss' homer against the Kansas City Royals that propelled Yanks into the Series. But accompanying photo shows Chambliss in a Cleveland Indians uniform.

**MYSTERY REMAINS.** Voyager Software's *Baseball's Greatest Hits* (\$30, Mac and Windows) balks at an encyclopedic approach. There are stats on many—not all—players. The latest version, available in September, does a splendid job of creating the game's glory. Sportscaster Mel Allen provides commentary, and fans can read accounts of plays

and events from series such as Red Smith and Grantland Rice. As with *Complete Baseball*, a true game is included.

Where the disk comes alive is in the voices of Yogi Berra, Ty Cobb, Casey Stengel and other Hall of Famers. The videos are also impressive. As a Mets fan, I gazed toward Tommie Agee's great catches in the '69 World Series and the ball crawling through the legs of Boston Red Sox first baseman Buckner in the Fall Classic '86. The best gem may be home-movie footage of Ruth's controversial "called shot" at Wrigley Field during the 1918 Series. Although the Babe appears to be pointing at a spot where he homered a month later, even the computer can't conclusively settle of baseball's most lingering mysteries. *Edward I.*



**SURVIVAL KITS: VOYAGER'S BASEBALL'S GREATEST HITS AND MICROSOFT'S COMPLETE BASEBALL ARE ENGROSSING**

kind to exploit multimedia. Fine, subtle touches include random sound bites and an opening menu of baseball card-like buttons: Clicking on Almanac lets you access a season-by-season summary dating back to 1901. By choosing Players, you can call up stats on everyone who performed in the majors. Chronicle covers such subjects as African Americans in baseball and collecting. Other choices let junkies peruse team histories or try trivia. Microsoft has set up an on-line link that lets people with a modem dial up summaries and box scores, though much of what's there is avail-

that he was credited with inventing the curveball. Cross-linked text makes it simple to jump among topics. When reading about home-run king Hank Aaron, you can click on the name of previous record holder, Babe Ruth, to move to the Bambino's biography.

Included among the dozen videos are Toronto Blue Jay Joe Carter's World Series-winning home run against the Philadelphia Phillies last fall and Pittsburgh Pirate Bill Mazeroski's 1960 Series-winning blast against the New York Yankees. I enjoyed footage of Pete Gray, the one-armed outfielder of the St. Louis Browns, and New York Giant Bobby Thomson's 1951 shot-heard-round-the-world.

as a reference work with 2,300 pages of statistics and articles, it'll provide grist for diehards. Like Microsoft's product, *Total Baseball* includes stats on every player to don big-league duds. But the nongraphical screens won't satisfy multimedia snobs, and there's no hy-

### Worth Noting

■ **SAFE HARBOR.** Money market funds offer safety, liquidity, and a current yield of nearly 4%. Learn more by ordering *Money Market Mutual Funds*, a free 12-page brochure from Investment Company Institute, P.O. Box 27850, Washington, D.C. 20038-7850.

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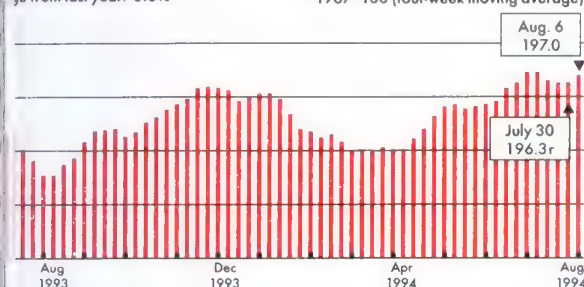


# Business Week Index

## PRODUCTION

Change from last week: 0.4%  
Change from last year: 5.0%

1967=100 (four-week moving average)

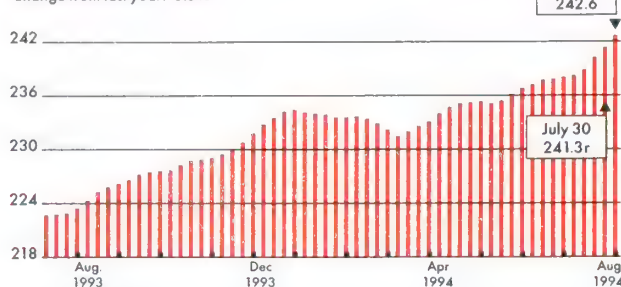


The production index edged up slightly during the week ended Aug. 6. On a seasonally adjusted basis, output levels of steel, trucks, electric power, crude oil, paperboard, and paper all increased. Auto production was down sharply. Lumber and coal output and rail-freight traffic declined as well. Before calculation of the four-week moving average, the index dropped to 198.7, from a July 1999 reading in the previous week.

BW production index copyright 1994 by McGraw-Hill Inc.

## LEADING

Change from last week: 0.5%  
Change from last year: 8.5%



The leading index rose during the week ended Aug. 6. A rally in the financial markets early in the week lifted stock prices and lowered bond yields, both positive signs for the economy. In addition, the growth in real estate loans rose, but growth rates for materials prices and M2 dropped. Data on business failures were unavailable. Before calculation of the four-week moving average, the index increased to 244.5, from 242.7.

Leading index copyright 1994 by Center for International Business Cycle Research

## PRODUCTION INDICATORS

|                                            | Latest week | Week ago  | % Change year ago |
|--------------------------------------------|-------------|-----------|-------------------|
| 8/13) thous. of net tons                   | 1,798       | 1,795#    | -2.8              |
| (8/13) units                               | 110,629     | 102,398r# | 6.5               |
| \$ (8/13) units                            | 113,623     | 113,343r# | 32.9              |
| IC POWER (8/13) millions of kilowatt-hours | 67,332      | 68,046#   | 1.9               |
| COIL REFINING (8/13) thous. of bbl./day    | 14,388      | 14,402#   | 2.4               |
| 8/6) thous. of net tons                    | 19,539#     | 19,925    | 11.6              |
| BOARD (8/6) thous. of tons                 | 920.3#      | 883.3     | 14.2              |
| (8/6) thous. of tons                       | 837.0#      | 827.0r    | 3.8               |
| R (8/6) millions of ft.                    | 481.9#      | 504.5     | 9.1               |
| HEIGHT (8/6) billions of ton-miles         | 23.5#       | 24.1      | 12.4              |

#s: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, in Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SFPA, Association of American Railroads

## FOREIGN EXCHANGE

|                             | Latest week | Week ago | Year ago |
|-----------------------------|-------------|----------|----------|
| YEN (8/17)                  | 100         | 101      | 105      |
| MARK (8/17)                 | 1.56        | 1.58     | 1.69     |
| POUND (8/17)                | 1.54        | 1.54     | 1.51     |
| FRANC (8/17)                | 5.34        | 5.40     | 5.87     |
| DIAN DOLLAR (8/17)          | 1.38        | 1.37     | 1.32     |
| FRANC (8/17)                | 1.31        | 1.33     | 1.49     |
| IN PESO (8/17) <sup>1</sup> | 3.399       | 3.388    | 3.108    |

#s: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pounds expressed in dollars

## COMMODITIES

|                                                | Latest week | Week ago | % Change year ago |
|------------------------------------------------|-------------|----------|-------------------|
| 8/17) \$/troy oz.                              | 377.200     | 378.300  | 0.9               |
| CRAP (8/16) #1 heavy, \$/ton                   | 134.50      | 136.50   | 19.6              |
| TUFFS (8/16) index, 1967=100                   | 214.5       | 212.3    | 1.2               |
| 1 (8/13) c/lb.                                 | 112.4       | 111.7    | 24.9              |
| UM (8/13) c/lb.                                | 70.0        | 70.0     | 25.6              |
| (8/13) #2 hard, \$/bu.                         | 3.59        | 3.56     | 9.1               |
| 1 (8/13) strict low middling 1-1/16 in., c/lb. | 71.07       | 71.30    | 35.0              |

#s: London Wednesday final setting, Chicago market, Knight-Ridder Commodity Research Metals Week, Kansas City market, Memphis market

Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=American Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

## LEADING INDICATORS

|                                            | Latest week | Week ago   | % Change year ago |
|--------------------------------------------|-------------|------------|-------------------|
| STOCK PRICES (8/12) S&P 500                | 459.39      | 459.70     | 2.1               |
| CORPORATE BOND YIELD, Aaa (8/12)           | 8.12%       | 7.96%      | 17.3              |
| INDUSTRIAL MATERIALS PRICES (8/12)         | 104.6       | 104.6      | 9.3               |
| BUSINESS FAILURES (8/5)                    | NA          | 298        | NA                |
| REAL ESTATE LOANS (8/3) billions           | \$434.8     | \$432.3    | 4.9               |
| MONEY SUPPLY, M2 (8/1) billions            | \$3,566.4   | \$3,565.8r | 2.2               |
| INITIAL CLAIMS, UNEMPLOYMENT (7/30) thous. | 315         | 329        | -6.0              |

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

## MONTHLY ECONOMIC INDICATORS

|                                            | Latest month | Month ago | % Change year ago |
|--------------------------------------------|--------------|-----------|-------------------|
| INDUSTRIAL PRODUCTION (July) total index   | 117.2        | 116.9r    | 5.7               |
| CONSUMER PRICE INDEX (July)                | 148.6        | 148.1     | 2.8               |
| PRODUCER PRICE INDEX (July) finished goods | 125.8        | 125.2     | 0.6               |
| RETAIL SALES (July) billions               | \$184.8      | \$184.9r  | 6.7               |

Sources: Federal Reserve, BLS, Census Bureau

## MONETARY INDICATORS

|                                     | Latest week | Week ago   | % Change year ago |
|-------------------------------------|-------------|------------|-------------------|
| MONEY SUPPLY, M1 (8/1)              | \$1,159.2   | \$1,158.2r | 6.2               |
| BANKS' BUSINESS LOANS (8/3)         | 299.4       | 298.2      | 8.2               |
| FREE RESERVES (8/3)                 | 916r        | 280r       | 940.9             |
| NONFINANCIAL COMMERCIAL PAPER (8/3) | 154.2       | 149.6      | -3.1              |

Sources: Federal Reserve (in billions, except for free reserves, which are expressed for a two-week period in millions)

## MONEY MARKET RATES

|                                        | Latest week | Week ago | Year ago |
|----------------------------------------|-------------|----------|----------|
| FEDERAL FUNDS (8/16)                   | 4.35%       | 4.23%    | 3.06%    |
| PRIME (8/17)                           | 7.75        | 7.25     | 6.00     |
| COMMERCIAL PAPER 3-MONTH (8/17)        | 4.91        | 4.81     | 3.17     |
| CERTIFICATES OF DEPOSIT 3-MONTH (8/17) | 4.86        | 4.78     | 3.13     |
| EURODOLLAR 3-MONTH (8/12)              | 4.76        | 4.68     | 3.13     |

Sources: Federal Reserve, First Boston



# YOU'VE JUST MISSED THE FIRST SIGN OF BREAST CANCER IF YOU DIDN'T SEE THAT SMALL DOT IN THE UPPER LEFT HAND CORNER.

Because it can start that small inside your breast. That's why a yearly mammogram is a must, especially if you're over 50. Doctors agree that as you get older, the risk of breast cancer is higher. But with early detection, you increase your chance of successful treatment. Even though you may have missed the first sign of breast cancer, a mammogram won't. For information, please call the American Cancer Society at 1-800-ACS-2345.

**A MAMMOGRAM.  
EARLY DETECTION IS THE  
BEST PROTECTION.**

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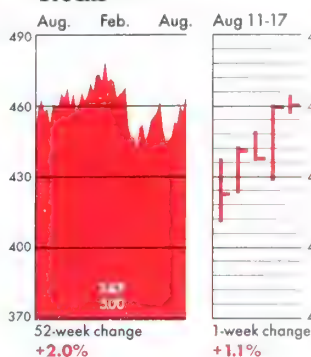
Zenith Data Systems 86

# Investment Figures of the Week

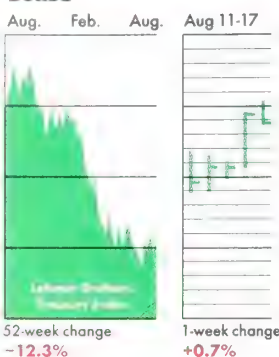
## SENTARY

Federal Reserve boosted short-term interest rates on Aug. 16, a rally in the bond market. were pleased by the decision-like the federal funds rate a percentage point, in the if the Fed was determined inflation in check. After the as announced, yields of Treasuries fell from 7.50% %. The Fed's action was apd by the stock market as d the Dow Jones industrial climbed 24 points. The ill during the week.

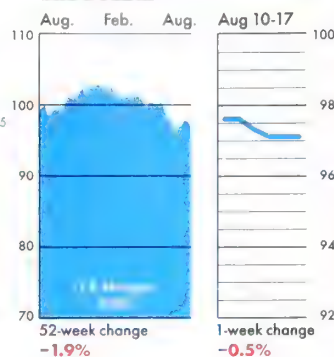
## STOCKS



## BONDS



## THE DOLLAR



## MARKET ANALYSIS

| INDEXES                      | Latest | % change Week | % change 52-week |
|------------------------------|--------|---------------|------------------|
| DOW JONES INDUSTRIAL         | 3776.5 | 0.3           | 4.8              |
| COMPANIES (S&P MidCap Index) | 174.6  | 1.1           | 1.3              |
| COMPANIES (Russell 2000)     | 249.3  | 1.2           | 2.7              |
| COMPANIES (Russell 3000)     | 267.1  | 1.1           | 1.4              |

| INDEXES             | Latest   | % change (local currency) Week | % change 52-week |
|---------------------|----------|--------------------------------|------------------|
| FINANCIAL TIMES 100 | 3190.3   | 0.7                            | 3.8              |
| NIKKEI INDEX        | 20,824.6 | 0.3                            | 0.2              |
| TSE COMPOSITE       | 4205.3   | 0.0                            | 3.3              |

| FUNDAMENTALS                 | Latest | Week ago | Year ago |
|------------------------------|--------|----------|----------|
| 90-DAY TREASURY BILL YIELD   | 4.68%  | 4.43%    | 3.04%    |
| 30-YEAR TREASURY BOND YIELD  | 7.39%  | 7.57%    | 6.26%    |
| S&P 500 DIVIDEND YIELD       | 2.73%  | 2.77%    | 2.77%    |
| S&P 500 PRICE/EARNINGS RATIO | 18.6   | 18.7     | 23.5     |

| TECHNICAL INDICATORS                      | Latest | Week ago | Reading  |
|-------------------------------------------|--------|----------|----------|
| S&P 500 200-day moving average            | 460.3  | 460.4    | Positive |
| Stocks above 200-day moving average       | 37.0%  | 37.0%    | Positive |
| Speculative sentiment: Put/call ratio     | 0.39   | 0.41     | Neutral  |
| Insider sentiment: Vickers sell/buy ratio | 0.94   | 0.97     | Positive |

## INDUSTRY GROUPS

BLOOMBERG FINANCIAL MARKETS, BRIDGE INFORMATION SYSTEMS INC.

| MONTH LEADERS        | % change 1-month | % change 12-month |
|----------------------|------------------|-------------------|
| MENTATION            | 13.9             | 15.2              |
| UNICATIONS EQUIPMENT | 13.7             | 10.1              |
|                      | 12.1             | 26.0              |
| UTER SYSTEMS         | 12.1             | 39.5              |
| SIFIED HEALTH CARE   | 11.7             | 19.3              |

| Strongest stock in group | % change 1-month | % change 12-month | Price  |
|--------------------------|------------------|-------------------|--------|
| HEWLETT-PACKARD          | 15.3             | 16.6              | 87 1/2 |
| NORTHERN TELECOM         | 17.6             | 48.7              | 35 1/8 |
| REEBOK INTERNATIONAL     | 19.3             | 53.2              | 36 3/8 |
| APPLE COMPUTER           | 23.0             | 26.9              | 34 3/4 |
| AMERICAN CYANAMID        | 58.9             | 105.6             | 93 3/4 |

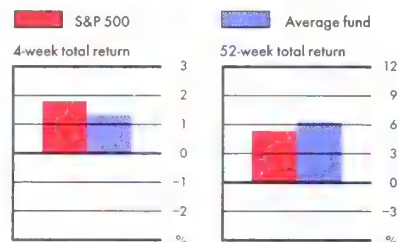
| MONTH LAGGARDS             | % change 1-month | % change 12-month |
|----------------------------|------------------|-------------------|
| URANTS                     | -10.3            | -4.6              |
| ND GAS DRILLING            | -9.6             | -20.9             |
| ELL EQUIPMENT AND SERVICES | -7.4             | -14.2             |
| ES                         | -6.7             | -15.8             |
| SHINGS AND APPLIANCES      | -5.9             | -4.9              |

| Weakest stock in group     | % change 1-month | % change 12-month | Price  |
|----------------------------|------------------|-------------------|--------|
| MCDONALD'S                 | -11.5            | -2.6              | 26     |
| ROWAN                      | -13.7            | -17.1             | 7 7/8  |
| HALLIBURTON                | -14.1            | -25.2             | 29 5/8 |
| AMR                        | -9.6             | -14.0             | 56 1/4 |
| ARMSTRONG WORLD INDUSTRIES | -8.4             | 26.5              | 47 3/4 |

## MUTUAL FUNDS

MORNINGSTAR INC.

| S                                |      | LAGGARDS                               |       |
|----------------------------------|------|----------------------------------------|-------|
| total return                     | %    | Four-week total return                 | %     |
| AAM EMERGING MARKETS             | 12.8 | MONITREND GOLD                         | -8.5  |
| TY LATIN AMERICA                 | 11.3 | STATE STREET RESEARCH GLOBAL ENERGY D  | -5.9  |
| JLES LATIN AMERICAN VALUE        | 11.1 | INVESCO STRATEGIC ENERGY               | -5.0  |
| total return                     | %    | 52-week total return                   | %     |
| AN STANLEY INSTL. EMERG. MARKETS | 50.6 | MONITREND GOLD                         | -44.4 |
| CO EMERGING MARKETS INSTL.       | 50.3 | KEYSTONE AMERICA HARTWELL EMERG. GR. B | -25.3 |
| ER LATIN AMERICA                 | 49.3 | STEADMAN OCEANOGRAPHIC TECHNOLOGY      | -24.1 |



## RELATIVE PORTFOLIOS

DRI/McGRAW-HILL

| Amounts at the present \$10,000 one year ago portfolio | Foreign stocks  | U.S. stocks     | Money market fund | Gold            | Treasury bonds |
|--------------------------------------------------------|-----------------|-----------------|-------------------|-----------------|----------------|
| gains indicate total returns                           | \$11,776 +0.11% | \$10,553 +1.55% | \$10,202 +0.05%   | \$10,070 -0.62% | \$9,561 +0.85% |

On this page are as of market close Wednesday, Aug. 17, 1994, unless otherwise indicated. Funds include S&P 500 companies only; performance and share prices are as of market close

Aug. 16. Mutual fund returns are as of Aug. 12. Relative portfolios are valued as of Aug. 16. A more detailed explanation of this page is available on request. r = revised



## TAKE THE POISON OUT OF WASHINGTON'S AIR

**P**artisanship is hardly new to American politics. The Federalists and the Anti-Federalists were at one another's throats even before the Constitution was signed, while the Democrats and Whigs fought bitterly throughout the early 1800s. But rarely in the two centuries-plus of this nation's history has the level of acrimony between political parties reached such poisonous heights as it has today. Not only does it imperil critical legislation, from health-care reform to the crime bill, but it also undermines the public's confidence in the ability of any party to actually govern. This is dangerous indeed.

"Who started it?" isn't really the point, though Democrats who complain about GOP intransigence today should recall their own ideological attack on Supreme Court nominee Robert H. Bork during the Reagan Administration. He was eminently qualified but his penchant for the politically incorrect ignited a vicious, partisan battle in the Senate.

Republicans have responded in kind by savaging such Clinton nominees as Lani Guinier and by going after the President himself. The allegation that Clinton was involved in any criminality in his Whitewater investment has been thin gruel from the beginning, yet Republicans hounded him until an independent counsel was appointed. Now the role of the independent counsel has itself become a partisan football.

This rise in partisanship has, of course, much to do with the impending November elections. Take crime prevention, desperately desired by the public. The anticrime bill is in the obvious interest of incumbents of both parties, and the compromises needed to pass the bill should have been made easily. Instead, a political firefight stalled the measure, and only last-minute damage control gives it a chance of passage.

But more fundamental forces may also be at work. The end of the cold war has taken away an enemy that often acted to force political groups to compromise their selfish interests for the good of the country. Now, the pressures of patriotism are no foil to the politics of self-interest.

Debate is fine. But the partisan excesses must end. There is no way to govern this complex nation effectively until civility returns to Washington.

## DON'T MUDDY THE WATERS OF FREE TRADE

**Z**ero green, zero blue. Sound like the score of a football game? Actually it's the Clinton Administration whispering to the U.S. business community that it will delete environmental and labor standards from the enabling legislation on the latest round of GATT, the General Agreement on Tariffs & Trade. The Administration should follow through in Congress. It would do right to keep free trade free of entangling social and political issues.

The same bizarre coalition of Sierra Clubbers, Naderites and isolationists that nearly killed NAFTA did succeed in setting a dangerous precedent. For the first time, they injected labor and environmental issues into trade negotiations. Now they are hoping to repeat their success with GATT.

These GATT-bashers, of course, believe that open trade threatens U.S. living standards. Some even see a foreign conspiracy that undermines U.S. laws and safeguards on food safety and environmental protection. They warn that the new World Trade Organization, created by GATT, will force the U.S. to lower its consumer and worker standards.

This is simple hogwash. It's not that labor and environmental issues are unimportant. In an economically integrated world, there is a real danger that the high living standards of the U.S., Europe, and Japan can be dragged down as they compete against such up-and-comers as China and India. A low-wage labor pool is a market advantage.

But the competitive answer is not to try to force U.S. labor and environmental standards down the throats of Latin Americans and Asians. India, the largest market democracy in the world, has correctly objected to this attempt in GATT as a form of American protectionism. It believes the U.S. may punish it for its low-wage competitive advantage.

The best U.S. response to the changing world economy lies in industry and workers moving up the value-added scale. That calls for better products made by more highly skilled employees. Growth is the only real answer to the problems of both the high-wage and low-wage countries. It is only in the context of high growth that the problems of income and environment find a solution.

## DESIGNING A DESIGN COUNCIL

**T**he last thing the U.S. needs is another federal bureaucracy, but a current proposal in Congress to establish a U.S. Design Council has merit. If done right and placed within the Commerce Dept., with a very small staff focused solely on improving American products—a council promoting industrial design excellence makes sense.

Washington already encourages engineering, science, and advanced manufacturing. What it doesn't do is help companies combine these elements to come up with marketable products that consumers crave. Industrial design does just that, focusing on user needs and preferences.

As Ford discovered with the Taurus, Gillette with the Sensor razor, and Motorola with the MicroTac cellular phone, industrial design has tremendous marketplace clout. Companies that combine industrial designers, engineers, and marketing people on their product-development teams are among the most competitive in the world. **6686**

The Commerce Dept. has initiatives to transfer technology from government and private labs to small and midsize companies. Adding an industrial design component to these programs would be the most effective way of getting the power of design to those most in need of it. A U.S. Design Council limited to championing that effort is a good idea.

















